- During fiscal year 2010, there were no additional contributions to Venture Capital Fund, Inc., a Puerto Rico Corporation, organized pursuant to Act No. 3 of October 6, 1987, as amended, known as the Puerto Rico Capital Investment Funds Act, that is managed by Advent-Morro Equity Partners (Advent-Morro Equity Partners, Inc.) in which the pension trust funds have a total commitment of $800 thousands. Advent-Morro is a Puerto Rico based private equity firm. The fund was created to make private equity investments in operating companies that are based, or are operating, or a combination of both, in Puerto Rico. Since inception, the fund has invested in 25 companies some of which it continues to provide capital for their expansion.

The fair value of the pension trust funds' investments in limited partnerships at June 30, 2010, amounted to approximately $82 million and is presented within other investments in the statement of fiduciary net assets – fiduciary funds. The fair values of these investments have been estimated by the corresponding general partner or fund manager of these partnerships and disclosed in its respective separate audited financial statements. The allocations of net gain and net loss to the limited partners are based on certain percentages, as established in the limited partnership agreements. The difference between the fair value of the investments and the total cumulative contributions is mostly due to distributions made.

As of June 30, 2010, the pension trust funds and discretely presented component units had capital commitments and contributions as follows (expressed in thousands):

Guayacán Fund of Funds, L.P.	**Public Sector Commitments**	**Fiscal Year Contributions**	**Cumulative Contributions**
Primary government:			
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	$25,000	$ -	$23,820
Puerto Rico System of Annuities and Pensions for Teachers	20,000	-	19,056
Subtotal	45,000	-	42,876
Guayacán Fund of Funds II, L.P.			
Primary government:			
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	25,000	-	23,681
Puerto Rico System of Annuities and Pensions for Teachers	25,000	-	23,681
Subtotal	50,000	-	47,362
Guayacán Fund of Funds III, L.P.			
Component Unit:			
State Insurance Fund Corporation	40,000	3,129	5,903
Balance carried forward	135,000	3,129	96,141

(Continued)

Balance brought forward	$135,000	$ 3,129	$ 96,141
Guayacán Private Equity Fund, L.P.			
Primary government:			
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	5,000	-	4,645
Puerto Rico System of Annuities and Pensions for Teachers	5,000	-	4,645
Component unit:			
Economic Development Bank for Puerto Rico (1)	20,000	-	18,578
Subtotal	30,000	-	27,868
Guayacán Private Equity Fund II, L.P.			
Primary government:			
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	15,000	6,143	14,744
Component unit:			
Economic Development Bank for Puerto Rico (1)	20,000	4,914	11,795
State Insurance Fund Corporation	10,000	2,457	5,217
Subtotal	45,000	13,514	31,756
Other Funds			
Primary government:			
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	45,800	10,121	34,704
Puerto Rico System of Annuities and Pensions for Teachers	28,714	109	26,428
Subtotal	74,514	10,230	61,132
Total	$284,514	$26,873	$216,897

(Concluded)

(1) Information related to the Economic Development Bank for Puerto Rico was obtained from unaudited financial statements provided by the respective fund.

9. RECEIVABLES AND PAYABLES

Receivables in the governmental funds include approximately $1.3 billion of accrued income, excise and sales and use taxes. Intergovernmental receivables include $431.4 million from the federal government and $26.5 million from CRIM. In addition, the enterprise funds include $73.8 million of unemployment, disability, and drivers' insurance premium receivable. Payables in the governmental funds include approximately $1.1 billion of trade accounts due to suppliers for purchase of merchandise and services rendered and $403.6 million of tax refunds payable.

In accordance with GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issue,* as amended (the "TB"), a receivable of $40.7 million was recorded as other receivable in the government wide financial statements for estimated shipments from January 1 to June 30, 2010, which will be applied to debt service upon collection. Additionally, the TB indicated that the Trust designated as the TSA should recognize a liability for the bonds payable and an expense (and liability if unpaid) in the same period in its stand-alone financial statements. The expense (and liability if unpaid) recognizes the contractual obligation to remit the proceeds of the bond sold to the settling government (the "Commonwealth"). Since the Trust is reported as a blended component unit, the TB indicates these remittances should be reported as transfers into the fund receiving the proceeds and transfers out in the fund that accounts for the activities of the TSA. Since the Trust has no contractual obligation, under its enabling legislation or elsewhere, to remit all bond proceeds or assets related to the GSA to the settling government (the "Commonwealth"), the Trust has not recognized an expense and liability for unpaid proceeds from the bonds since it records the expense as amounts are disbursed as grants to its settling government (including its instrumentalities) or third parties.

10. PLEDGES OF RECEIVABLES AND FUTURE REVENUES

The Commonwealth has pledged the first two point seventy-five (2.75%) of the sales and use tax for the repayment of certain outstanding obligations of the Commonwealth. During 2010, COFINA, a blended component unit of the Commonwealth, responsible for the financing, payments and retirement of certain debt obligations of the Commonwealth, has issued bonds for approximately $3.6 billion payable through 2044. The Commonwealth has committed to appropriate each year, from the sales and use tax, amounts sufficient to cover the principal and interest requirements on the debt issued by COFINA. COFINA has pledged as the sole security for the bonds, the annual appropriations from the Commonwealth. Total principal and interest remaining on the secured debt is $29.5 billion and $17.4 billion, respectively. The pledged sale and use tax base amount for the fiscal year ended June 30, 2010 amounted to $550.3 million. For fiscal year 2010, interest paid by COFINA amounted to $375.9 million and the sales and use tax revenue recognized by the Commonwealth was $553.9 million.

Also, the Commonwealth has pledged part of the gross receipts of the gasoline excise taxes and one half of the diesel oil excise taxes (up to $11 million monthly but no more than $120 million annually) and $15 per vehicle per year from motor vehicle license fees for the repayment of the PRHTA Revenue Bonds. The Commonwealth has committed to appropriate each year, from the excise taxes, amounts sufficient to cover the principal and interest requirements on the debt issued by PRHTA. PRHTA has pledged as the sole security for the bonds, the annual appropriations from the Commonwealth. Total principal and interest remaining on the secured debt is $6.2 billion and $5.6 billion, respectively. The pledged excise tax for the fiscal year ended June 30, 2010 amounted to $120 million. For fiscal year 2010, principal and interest paid by PRHTA amounted to $104 million and $349.2 million, respectively, and the excise tax revenue recognized by the Commonwealth was $282 million.

Rum manufactured in Puerto Rico is subject to federal excise taxes; however, these are returned by the U.S. Internal Revenue Service (IRS) to the Commonwealth. Act No. 44, as amended, requires that in

each fiscal year after fiscal year 2006, through fiscal year 2009, and each fiscal year thereafter through fiscal year 2057, the first $90 million and $117 million, respectively, of certain federal excise taxes received by the Commonwealth be transferred to the Puerto Rico Infrastructure Financing Authority ("PRIFA"). Such taxes consist of the federal excise taxes levied on rum and other articles produced in Puerto Rico and sold in the United States, which taxes are collected by the U.S. treasury and returned to the Commonwealth. The Commonwealth has pledged these taxes for the repayment of PRIFA's Special Tax Revenue Bonds. The Commonwealth has committed to appropriate each year, from the excise taxes, amounts sufficient to cover the principal and interest requirements on the debt issued by PRIFA. PRIFA has pledged as the sole security for the bonds, the annual appropriations from the Commonwealth. The federal excise taxes securing the Bonds are subject to a number of factors, including the continued imposition and remittance of such taxes to the Commonwealth and conditions affecting the Puerto Rico rum industry. If the federal excise taxes received by the Commonwealth in any fiscal year are insufficient, Act No. 44 requires that PRIFA request additional funding. The Director of the Office of Management and Budget of the Commonwealth then includes in the budget of the Commonwealth for the corresponding fiscal year, an appropriation necessary to cover such deficiency. The Commonwealth's Legislature, however, is not obligated to make the necessary appropriation to cover such deficiency. Total principal and interest remaining on the secured debt is $2.6 billion and $1.6 billion, respectively. The pledged federal excise tax amount for the fiscal year ended June 30, 2010 amounted to $117 million. For fiscal year 2010, principal and interest paid by PRIFA amounted to $24.8 million and $83.4 million, respectively, and the excise tax revenue recognized by the Commonwealth was $117 million.

11. INTERFUND AND INTRAENTITY TRANSACTIONS

Interfund receivables and payables at June 30, 2010 are summarized as follows (expressed in thousands):

Receivable Fund	Payable Fund	Amount
Other governmental	General	$167,345
General	Lotteries	45,993
COFINA debt service	Pledge sales and use tax	103,647
Lotteries	General	53,175
Other proprietary	General	21,006
General	Unemployment insurance	12,862
General	Other governmental	3,760
		$407,788

Transfers from (to) other funds for the year ended June 30, 2010 are summarized as follows (expressed in thousands):

Transferee Fund	Transferor Fund	Amount
General	COFINA special revenue	$ 2,702,238
COFINA special revenue	COFINA debt service	1,750,542
Pledge sales and use tax	General	7,737
COFINA debt service	Pledged sales and use tax	553,860
Other governmental	General	332,014
Debt service	General	447,312
General	Debt service	227,395
General	Lotteries	220,406
General	Unemployment insurance	49,197
Other proprietary	General	8,675
General	Other proprietary	4,924
General	Other governmental	550
Other governmental	Other governmental	241
		$ 6,305,091

The principal purposes of the interfund transfers are to (expressed in thousands):

a. Transfer of ($2,702,238) from the COFINA special revenue fund to the General Fund for the Fiscal Stabilization Funds, the Local Stimulus Economic Plan, and for the payment of extra constitutional debt.

b. Transfer of ($1,750,542) from the COFINA debt service fund to the COFINA special revenue fund. All ($1,750,542) were transferred to the General Fund for the purposes stated above.

c. Transfer of ($7,737) from the General Fund to Pledged Sale and Use Tax fund.

d. Transfers of ($447,312) from the General Fund to the Debt Service Fund to make funds available for debt service payments.

e. Transfer of ($220,406) from the Lotteries to the General Fund to distribute the increase in net assets of the Lotteries for the use of the General Fund, as required by the Lotteries enabling legislation.

f. Recognize as transfers the rental payments made by the Commonwealth's agencies on properties leased by PBA, a blended component unit of the Commonwealth ($250,713); ($75,442) related to the revenues received from the Tobacco Settlement for the agreement managed by The Children's Trust, a blended component unit of the Commonwealth; and ($5,859) to the Puerto Rico Maritime Shipping Authority for the payment of appropriation debts.

g. Distribution of the sales tax for the use of COFINA debt service fund as required by enabling legislation for the payment of its bonds ($553,860).

h. Transfer unemployment insurance fund's distribution of surplus cash belonging to the general fund for the payment of administrative expenses ($49,197).

i. Provide local matching funds from the general fund related to the federal capital grants of the Puerto Rico Water Pollution Revolving Fund and Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund, two nonmajor enterprise funds of the Commonwealth ($8,675).

j. Transfer from the Commonwealth capital project fund (a nonmajor governmental fund) to the general fund for the public improvements in municipalities and corporations ($550).

k. Transfer from the Drivers and Disability Insurance funds related to the distribution of surplus cash to the General Fund ($4,924).

l. Transfer from the Debt Service Fund to the General Fund for the payment of principal and interests of notes payable ($227,395).

m. Transfer from The Children's Trust – Debt Service fund to Children's Trust – Special Revenue fund ($241).

Interfund receivables and payables represent the pending settlements of the aforementioned transfers or transactions from current and prior years.

Due from (to) primary government are as follows (expressed in thousands):

Receivable Entity/Fund	Amount	Payable Entity/Fund	Amount
Business-type activities	$ 375,793	Puerto Rico Aqueduct and Sewer Authority	$ 375,793
Governmental activities	231,535	Puerto Rico Medical Services Administration	81,378
	$ 607,328	Puerto Rico Ports Authority	41,532
Puerto Rico Electric Power Authority	$ 84,247	Cardiovascular Center Corporation of Puerto Rico and the Caribbean	38,447
University of Puerto Rico	75,011	Puerto Rico Industrial Development Company	19,244
Government Development Bank for Puerto Rico	63,981	Puerto Rico Tourism Company	17,460
Puerto Rico Industrial Development Company	43,403	Puerto Rico Trade and Export Company	9,922
Puerto Rico Aqueduct and Sewer Authority	33,714	Puerto Rico Metropolitan Bus Authority	7,949
Puerto Rico Medical Services Administration	21,237	Puerto Rico Health Insurance Administration	7,239
Agricultural Services Development Administration	18,758	Governing Board of the 911 Service	4,189
		Puerto Rico Highways and Transportation Authority	2,246
Puerto Rico Infrastructure Financing Authority	15,139	National Parks Company of Puerto Rico	1,929
Company for the Integral Development of Peninsula Cantera	10,855		
Land Authority of Puerto Rico	7,848		$ 607,328
State Insurance Fund Corporation	6,433		
Puerto Rico Convention Center District Authority	2,742	Governmental activities	$ 388,569
Puerto Rico Ports Authority	2,600		
Puerto Rico Metropolitan Bus Authority	1,323		
Right to Employment Administration	1,278		
	$ 388,569		

The amount owed by PRASA of $376 million represents construction loans granted by the Puerto Rico Water Pollution Control Revolving Fund and the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund, nonmajor enterprise funds, to finance the construction of capital assets for PRASA.

Governmental activities due from component units includes an allowance for doubtful accounts amounting to $108.9 million.

The amount receivable by PREPA from the primary government includes approximately $19.0 million representing an agreement with the Commonwealth by which the Commonwealth will pay outstanding fuel adjustment subsidy and certain other accumulated debt. The amount owed by the Commonwealth is presented within notes payable in the statement of net assets (deficit) of the governmental activities.

As of July 1, 1999 debts of approximately $102 million payable to UPR, a discretely presented component unit, in relation to outstanding noninterest bearing debt accumulated in prior years by the Health Facilities and Services Administration (HFSA) were transferred to the Commonwealth. On September 7, 2004, additional debts of approximately $71.2 million were also restructured and combined with the previous financing arrangement. As of June 30, 2010, $25.2 million remains outstanding of this arrangement. During the fiscal year 2009, the Office of Management and Budget and the UPR signed an intra-agency agreement amounting to $36 million to pay for appropriation for fiscal year 2007 and 2008. In April 2011 the OMB settled this intra-agency agreement for $18.6 million.

Due from (to) component units are as follows (expressed in thousands):

Receivable Entity/Fund	Amount	Payable Entity/Fund	Amount
Puerto Rico Electric Power Authority	$ 145,560	Puerto Rico Medical Services Administration	$ 19,883
Puerto Rico Ports Authority	50,190	Puerto Rico Ports Authority	53,936
Puerto Rico Aqueduct and Sewer Authority	14,595	Puerto Rico Maritime Transportation Authority	51,302
University of Puerto Rico	2,978	Puerto Rico Highways and Transportation Authority	22,166
Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authoritiy	26,271	Puerto Rico Electric Power Authority	28,265
Land Authority of Puerto Rico	20,219	Puerto Rico Aqueduct and Sewer Authority	28,754
State Insurance Fund Corporation	5,221	Agricultural Services and Development Administration	14,288
Puerto Rico Land Administration	1,306	Puerto Rico Tourism Company	10,170
Puerto Rico Convention Center District Authority	10,170	Cardiovascular Center Corpopration of Puerto Rico and the Caribbean	11,649
		Farm Insurance Corporation of Puerto Rico	5,931
		Land Authority of Puerto Rico	3,840
		State Insurance Fund Corporation	1,454
		Puerto Rico Industrial Development Company	1,306
		Puerto Rico Metropolitan Bus Authority	5,622
		Puerto Rico Solid Waste Authority	5,737
		National Parks Company of Puerto Rico	5,560
		Puerto Rico Convention Center District Authority	2,603
		Puerto Rico Trade and Export Company	1,066
		University of Puerto Rico	2,978
Subtotal	276,510	Sub total	276,510
Government Development Bank for Puerto Rico	3,281,384	Puerto Rico Highways and Transportation Authority	969,848
		Puerto Rico Aqueduct and Sewer Authority	786,228
		Special Communities Perpetual Trust	376,095
		State Insurance Fund Corporation	220,000
		Puerto Rico Ports Authority	143,738
		Puerto Rico Convention Center District Authority	151,076
		Agricultural Services and Development Administration	103,518
		Puerto Rico Industrial Development Company	90,070
		Puerto Rico Solid Waste Authority	68,085
		Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority	61,107
		Land Authority of Puerto Rico	45,221
		National Parks Company of Puerto Rico	13,949
		Company for the Integral Development of the Península de Cantera	10,779
		Puerto Rico Infrastructure Financing Authority	3,135
		Puerto Rico Public Private Partnerships Authority	2,147
		Puerto Rico Conservatory of Music Corporation	1,028
		Economic Development Bank for Puerto Rico	10,756
		Port of Amercias Authority	204,713
		University of Puerto Rico	19,891
		Subtotal	3,281,384
	$3,557,894		$3,557,894

The rest of the loans receivable reported by GDB consists of the following (expressed in thousands):

Primary government — governmental activities	$1,561,095
Other governmental entities and municipalities	1,646,150
Private sector	530,062
Total loans receivable reported by GDB	$3,737,307

The loans to the primary government are presented by the Commonwealth within notes payable in the statement of net assets (deficit).

Expenses of the primary government include approximately $2.7 billion in capital and operational contributions made by the primary government to the component units as follows (expressed in thousands):

Puerto Rico Health Insurance Administration	$1,169,143
University of Puerto Rico	769,173
Nonmajor component units	627,456
Puerto Rico Aqueduct and Sewer Authority	58,746
Government Development Bank for Puerto Rico	49,000
Puerto Rico Highways and Transportation Authority	42,909
Total contributions made by primary government to component units	$2,716,427

12. RESTRICTED ASSETS

Restricted assets of the primary government included in the basic financial statements at June 30, 2010 consist of cash, receivables, investments, and other assets to be used for the following purposes (expressed in thousands):

Governmental activities:	
Debt service and sinking fund	$ 2,012,948
Public Housing Administration - funds received from the U.S Housing and Urban Development	1,833
Affordable housing program	1,249
Construction of governmental facilities	206,252
Collateral for underlying securities	85,940
Payment of operational expenses and certain financing granted to the Commonwealth, among other purposes	900,191
Assets in liquidiation	34,024
Other	34,308
Total restricted assets of governmental activities	$ 3,276,745
Business-type activities:	
Disability insurance benefits	$ 31,770
Lending activities	475,657
Total restricted assets for business-type activities	$ 507,427

Liabilities of the primary government payable from restricted assets consist of the following (expressed in thousands):

Governmental activities:	
Debt service	$ 282,832
Other	34,308
Accounts payable to contractors	18,144
Liabilities payable from restricted assets — governmental activities	$ 335,284
Business-type activities:	
Disability insurance benefit payable	$ 560
Accounts payable and accrued liabilites	961
Liabilities payable from restricted assets — business-type activities	$ 1,521

Restricted net assets of the primary government consist of the following (expressed in thousands):

Governmental activities restricted net assets (expressed in thousands):	
Restricted for capital projects	$ 188,108
Collateral for underlying securites	85,940
Assets in liquidations	34,024
Payment of operational expenses and certain financing granted to the Commonwealth, among other purposes	900,191
Restricted for debt service	1,730,116
Affordable housing and related loan insurance programs	3,082
Total restricted net assets-governmental activities	$ 2,941,461

Business-type activities restricted net assets:	
Lending activities	$ 474,696
Payment of insurance benefits	31,210
Total restricted net assets-business-type activities	$ 505,906

Restricted assets of the component units included in the basic financial statements at June 30, 2010 are to be used for the following purposes (expressed in thousands):

Debt services and sinking fund requirements	$ 2,449,178
Affordable housing and related loan insurance programs	1,908,808
Collateral for underlying securities	1,317,234
Construction and betterments funds	938,188
Other uses	442,901
Trust - nonexpendable	310,149
Educational funds	130,850
Industrial incentives	21,260
Financial assistance	10,858
Maintenance reserve fund	5,578
Escrow	143
Total for components units	$ 7,535,147

Act No. 92 of June 24, 1998, ("Act No. 92") provides, among other things, for the creation of the Permanent Fund of PRIFA. The Permanent Fund consists of a Corpus Account funded with a portion of the proceeds from the sale of assets of PRTA and additional accounts created or to be created by the PRIFA. Act No. 92 provides that the principal of the Corpus Account may not be reduced for any reason and that income received from investments in the Corpus Account and amounts received may be deposited in any of the additional accounts.

On March 2, 1999, PRIFA received $1.2 billion in connection with the sale of certain assets of PRTA, which were deposited in the Corpus Account. Amounts deposited in the additional accounts are to be used first to pay the principal, premium, and interest of any bonds outstanding or to be issued by PRIFA and then for the expansion, development, and modernization of infrastructure related to the aqueduct and sewer systems of Puerto Rico.

The amounts deposited in the Permanent Fund shall be invested up to $1 billion in (1) direct obligations of the U.S. government; (2) obligations, the payment of principal and interest of which are unconditionally guaranteed by the U.S. government; (3) certificates of deposit of any bank, national bank association, or trust company organized and existing under the laws of the Commonwealth, the United States of America, or any of its states, on which the excess over the federal deposit insurance is secured by investments of the types described in (1) and (2) above; or (4) tax-exempt obligations of any state, instrumentality, agency, of political subdivision of Puerto Rico or the United States, the payment of principal and interest of which is secured by investments of the types described in (1) and (2) above.

Amounts in excess of $1 billion shall be invested in any of the instruments mentioned above or in any other instruments, including publicly traded common and preferred stock, not prohibited by investment guidelines adopted by GDB.

By virtue of Act No. 3 of January 14, 2009 (Act No. 3) approved by the Legislature of Puerto Rico, Act. No. 44 of June 21, 1988, was amended to permit the PRIFA to sell all or a portion of the outstanding Corpus Account investments held in the 2000 Trust Agreement and use the net proceeds of said redemption to provide for the early extinguishment of the Series 2000 A and B Bonds, maintain a permanent investment of $300 million within the Corpus Account, payments to the IRS, payment of transaction expenses, and contribute any remaining amounts to the Commonwealth and GDB, among other purposes.

On January 29, 2009, PRIFA entered into an escrow restructuring for the Series 2000 A and B Bonds in accordance with the provisions of Act No. 3 and sold the investments held in the Corpus Account. During the year ended June 30, 2010, PRIFA used the remaining proceeds of the redemption to make additional contributions to the Commonwealth and GDB amounting to approximately $3.3 million.

At June 30, 2010, approximately $1,042 million have been invested in short-term U.S. Treasury securities, which are restricted for the early extinguishment of the Series 2000 A and B Bonds and included as part of cash and cash equivalents in the accompanying statement of net assets (deficit). Also, $310 million have been invested in a time deposit agreement with GDB as a permanent investment within the Corpus Account as established by Act. No. 3.

13. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2010 is as follows (expressed in thousands):

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 881,877	$ 21,746	$ 30,043	$ 873,580
Construction in progress	1,322,447	198,825	425,917	1,095,355
Total capital assets, not being depreciated	2,204,324	220,571	455,960	1,968,935
Buildings and building improvements	7,451,992	249,233	121,723	7,579,502
Equipment, furniture, fixtures, vehicles, and software	507,701	40,306	17,964	530,043
Infrastructure	444,248	172,446	10,848	605,846
Total capital assets, being depreciated and amortized	8,403,941	461,985	150,535	8,715,391
Less accumulated depreciation and amortization for:				
Buildings and building improvements	2,671,550	203,995	28,067	2,847,478
Equipment, furniture, fixtures, vehicles, and software	292,012	43,691	11,008	324,695
Infrastructure	110,601	11,961	4,210	118,352
Total accumulated depreciation and amortization	3,074,163	259,647	43,285	3,290,525
Total capital assets, being depreciated and amortized, net	5,329,778	202,338	107,250	5,424,866
Governmental activities capital assets, net	$7,534,102	$422,909	$563,210	$7,393,801
Business-type activities:				
Total capital assets, being depreciated — equipment	$ 4,818	$ 926	$ -	$ 5,744
Less accumulated depreciation of equipment	4,136	22	-	4,158
Total business-type activities capital assets, being depreciated, net	$ 682	$ 904	$ -	$ 1,586

Depreciation and amortization expense was charged to functions/programs of the primary government for the year ended June 30, 2010 as follows (expressed in thousands):

Governmental activities:	
General government	$ 85,833
Public safety	23,339
Health	7,194
Public housing and welfare	89,637
Education	37,626
Economic development	16,018
Total depreciation and amortization expense — governmental activities	$259,647

The Commonwealth follows the provision of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, an amendment to GASB Statement No. 34. This statement establishes guidance for accounting and reporting for the impairment of capital assets and for insurance recoveries. Every year the Commonwealth performs an impairment analysis of its capital assets, in order to comply with the requirements of GASB Statement No. 42. The financial reporting impact resulting from this analysis had no effect on the statement of activities for the year ended June 30, 2010.

General infrastructure assets include $417 million representing the estimated cost of assets transferred to the Department of Natural and Environmental Resources (DNER) of the Commonwealth in 1997 upon completion of the Cerrillos Dam and Reservoir and the Portugues-River and Bucana-River Projects by the U.S. Army Corps of Engineers. These infrastructure assets are reported within governmental activities and include dams, intake facilities, and similar items built for flood control, water supply, and recreational purposes. The Commonwealth also recorded a payable due to the U.S. Army Corps of Engineers, amounting to $205 million, for its estimated allocated share of the construction costs associated with these projects, including accrued interest of $5 million. The final debt agreement between DNER and the U.S. Army Corps of Engineers has not been finalized, and therefore, terms and conditions could differ from those estimated. The depreciation is computed using the straight-line method over an estimated useful life of 50 years from the transfer date of the property. The related debt is expected to be payable on an annual basis over a 50 year period. However, the debt has been presented as a long-term payable after one year in the accompanying statement of net assets (deficit) since the commencement date of repayment has not yet been determined.

On August 17, 2001, the Legislature of the Commonwealth approved Act No. 120, which requires the conditional transfer of the ownership of certain real properties under the name of the Department of Recreation and Sports (DRS) of the Commonwealth to the municipalities of the Commonwealth. The land and the facilities were transferred at no cost to the municipalities. During the fiscal year ended June 30, 2010, land, building, and building improvements amounting to $14 million were transferred to several municipalities.

Discretely Presented Component Units

	Beginning Balance (as Restated)	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 3,036,496	$ 50,647	$ 19,533	$ 3,067,610
Art works	9,477	25	-	9,502
Construction in progress	6,159,895	2,349,557	3,789,237	4,720,215
Total capital assets, not being depreciated	9,205,868	2,400,229	3,808,770	7,797,327
Capital assets, being depreciated:				
Buildings and building improvements	4,810,304	114,742	39,444	4,885,602
Equipment, furniture, fixtures, vehicles, and software	8,739,093	997,444	39,337	9,697,200
Infrastructure	24,928,423	1,755,987	89,793	26,594,617
Intangibles, other than software	2,293	-	-	2,293
Total capital assets, being depreciated and amortized	38,480,113	2,868,173	168,574	41,179,712
Less accumulated depreciation and amortization for:				
Buildings and building improvements	1,953,687	186,736	53,564	2,086,859
Equipment, furniture, fixtures, vehicles and software	1,903,187	177,173	81,635	1,998,725
Infrastructure	13,897,608	808,681	12,884	14,693,405
Intangibles, other than software	811	-	-	811
Total accumulated depreciation and amortization	17,755,293	1,172,590	148,083	18,779,800
Total capital assets, being depreciated and amortized, net	20,724,820	1,695,583	20,491	22,399,912
Capital assets, net	$ 29,930,688	$ 4,095,812	$ 3,829,261	$ 30,197,239

On April 6, 2006, PRIFA and PRASA entered into an assistance agreement whereby the infrastructure projects undertaken by PRIFA for PRASA's benefit (the "PRASA Projects") will be transferred to PRASA not later than 90 days after the execution of the agreement. PRIFA and PRASA must comply with certain conditions precedent to transfer, which requires among other: (1) written assignment to PRASA of such contracts in connection with such projects, which contract PRASA determines are necessary; (2) completion of the technical and financial report; (3) completion of a legal report, including an assessment of actual or potential claims for such project; and (4) completion of the land acquisition process and transfer of land to PRASA in connection with such projects. PRIFA continued to fund the completion of the projects still in development up to the maximum available for such purposes.

On June 28, 2010, PRIFA and PRASA entered in an amended assistance agreement (the "Agreement") to acknowledge PRIFA's compliance with the conditions precedent to transfer on all PRASA Projects, excluding land owned by PRIFA, and PRASA's assumption of all operation, maintenance, and safety responsibilities of all PRASA Projects. In connection with the amendment, approximately $915 million of PRIFA's capital assets were transferred to PRASA. The transfer to PRASA of land owned by PRIFA in connection with such projects of approximately $9,282,000 at June 30, 2010, has not been executed since various conditions precedent to the transfer are in the process of being completed.

14. TAX REVENUE ANTICIPATION NOTES PAYABLE

Act No. 1 of the Legislature of the Commonwealth, approved on June 26, 1987 ("Act No. 1"), authorizes the Secretary of the Treasury Department to issue, from time to time, notes in anticipation of taxes and revenues ("Tax Revenue Anticipation Notes" or "TRANS") so that the Secretary, in the cash flow management program designed to maximize the use of moneys in the general fund, will have an alternate means of providing a liquidity mechanism to cover any temporary cash shortages projected for a fiscal year. Act No. 139, approved on November 9, 2005, amended Section 2(g) of Act No. 1 to provide that the total principal amount of notes issued under the provisions of Act No.1 and outstanding at any time for any fiscal year may not exceed the lesser of eighteen percent (18%) of the net revenues of the general fund for the fiscal year preceding the fiscal year in which the notes are issued or one billion five hundred million dollars ($1,500,000,000).

TRANS issued during fiscal year 2010 amounted to $2,275 million at interest rates ranging from 2.80% to 3.50%. TRANS proceeds were used to cover temporary cash deficiencies resulting from the timing differences between tax collections and the payments of current expenditures. TRANS were refinanced at various points during the year in order to take advantage of interest rates. The maximum amount of TRANS outstanding at any time during the year was approximately $900 million. As of June 30, 2010, the balance of TRANS outstanding was paid in full.

15. SHORT AND LONG-TERM OBLIGATIONS

(a) Primary Government

Summary of Short and Long-term Obligations — Short and long-term obligations at June 30, 2010 and changes for the year then ended are as follows (expressed in thousands):

Short Term Obligations	Balance At June 30, 2009	Debt Issued	Debt Paid	Original Issue (Discounts) Premiums	Other Net Increases (Decreases)	Balance At June 30, 2010	Due Within One Year
Notes payable to GDB	$ 175,464	$ 100,000	$ (18,256)	$ -	$ (122,521)	$ 134,687	$ 134,687
Long Term Obligations							
Governmental activities:							
General obligation and revenue bonds	$ 25,021,742	$ 4,839,021	$ (1,410,735)	$ (45,966)	$ 193,654	$ 28,597,716	$ 445,825
Commonwealth appropriation bonds	737,345	-	-	-	2,732	740,077	-
Notes payable to component units:							
GDB	1,730,138	956,565	(1,382,817)	-	122,521	1,426,407	110,305
Other	87,875	-	(7,571)	-	(17,416)	62,888	7,570
Capital leases	240,084	427	(5,527)	-	-	234,984	5,559
Total bonds, notes payable and capital leases payable	27,817,184	5,796,013	(2,806,650)	(45,966)	301,491	31,062,072	569,259
Compensated absences	1,616,925	-	(794,989)	-	684,257	1,506,193	740,546
Net pension obligation	6,754,230	-	-	-	1,209,720	7,963,950	-
Net postemployment benefit obligation	76,606	-	-	-	55,981	132,587	-
Other long-term liabilities	2,202,395	-	(177,854)	-	168,013	2,192,554	164,112
Total governmental activities	38,467,340	5,796,013	(3,779,493)	(45,966)	2,419,462	42,857,356	1,473,917
Business-type activities:							
Compensated absences	4,732	-	-	-	(503)	4,229	2,262
Obligation for unpaid lottery prizes	263,591	-	-	-	(39,690)	223,901	56,561
Claims liability for insurance benefits	98,726	-	-	-	4,543	103,269	103,269
Total business-type activities	367,049	-	-	-	(35,650)	331,399	162,092
Total primary government	$ 38,834,389	$ 5,796,013	$ (3,779,493)	$ (45,966)	$ 2,383,812	$ 43,188,755	$ 1,636,009

The balances of general obligation and revenue bonds paid included within other financing uses and principal as reported in the statement of revenues, expenditures, and changes in fund balances (deficit) – governmental funds do not agree with amounts reported as debt paid in the above table primarily because the above table includes debt paid on general obligation and revenue bonds, which was accrued during the fiscal year 2009 as a fund liability. The prior year fund liability mentioned above amounted to approximately $158 million and was reported as a balance sheet transaction in the fund financial statements in 2009. Also, during fiscal year 2010 the amount of approximately $408 million was accrued as fund liability. The net effect of $250 million is the difference between the debt paid on bonds and notes in the previous table and the payments in the statement of revenues, expenditures, and changes in fund balances (deficit) – governmental funds.

The other net increases in bonds and notes payable consist of deferred losses on refunding, net of amortization, and amortization of premiums and discounts on bonds and new notes payables. These adjustments did not require any source or use of cash.

Compensated absences, net pension obligation, net postemployment benefit obligation, other long-term liabilities, obligation for unpaid lottery prizes, and claims liability for insurance benefits reflect other net increases (decreases) resulting from adjustments and changes to agree these obligations to their new estimated balances at June 30, 2010.

(b) Debt Limitation

The Constitution of the Commonwealth authorizes the contracting of debts as determined by the Legislature. Nevertheless, the Constitution of the Commonwealth provides that direct obligations of the Commonwealth evidenced by bonds or notes and backed by the full faith, credit, and taxing power of the Commonwealth are not to be issued if the amounts of the principal of, and interest on, such bonds and notes and on all such bonds and notes issued thereafter, which are payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year on account of bonds or notes guaranteed by the Commonwealth, exceeds 15% of the average annual revenue raised under the provisions of Commonwealth legislation and conveyed into the Treasury (hereinafter internal revenue) in the two fiscal years preceding the current fiscal year. Section 2, Article VI of the Constitution does not limit the amount of debt that the Commonwealth may guarantee so long as the 15% limitation is not exceeded. Internal revenue consists principally of income taxes, sales and use tax, property taxes and excise taxes. Certain revenue, such as federal excise taxes on offshore shipments of alcoholic beverages and tobacco products, and customs duties, which are collected by the U.S. government and returned to the Commonwealth, motor vehicle fuel taxes and license fees, which are allocated to the PRHTA, a discrete component unit, are not included as revenue for the purpose of calculating the debt limit. At June 30, 2010, the Commonwealth is in compliance with the debt limitation requirement. In addition, the portion of sales and use tax allocated to COFINA is not included as internal revenue in consistency with the legislation creating COFINA, which legislation transfers ownership of such portion of the sales and use tax to COFINA and provides that such portion is not “available resources” under the constitutional provisions relating to the payment of debt service.

(c) Bonds Payable

The Constitution of the Commonwealth provides that public debt will constitute a first claim on the available revenue of the Commonwealth. Public debt includes general obligations and revenue bonds of the Commonwealth and any payment required to be made by the Commonwealth under its guarantees of bonds issued by blended or discretely presented component units. The full faith, credit, and taxing power of the Commonwealth are irrevocably pledged for the prompt payment of the principal and interest of the general obligation bonds.

Act No. 83 of August 30, 1991, as amended, provides for the levy of an annual special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation. The levy is made by CRIM, a municipal corporation, not a component unit of the Commonwealth. CRIM is required to remit the 1.03% of property tax collected to the Commonwealth to be used by the Commonwealth's debt service fund for payment of debt service on general obligations and revenue bonds of the Commonwealth. During the year ended June 30, 2010, the total revenue and receivable reported by the Commonwealth amounted to approximately $115 million and $27 million, respectively, which are included in the debt service fund.

For financial reporting purposes, the outstanding amount of bonds represents the total principal to be repaid, net of unamortized premiums, discount, and deferred refunding losses; for capital appreciation bonds, it represents total principal and unaccreted interest to be repaid.

COFINA

Short-Term Debt — During the year ended June 30, 2010, COFINA issued demand notes and bond anticipation notes to GDB and another financial institution amounting to approximately $708 million. These notes were repaid with the issuance of sales tax revenue bonds issued in fiscal year 2010, as explained below.

Bonds Payable — On February 9, 2010, COFINA issued Sales Tax Revenue Bonds, First Subordinate Series 2010A amounting to approximately $1,824 million. The proceeds from the issuance of the Series 2010A bonds were mainly used to (1) repay bond anticipation notes issued to a financial institution, (2) cover operational expenses of the Commonwealth for fiscal years 2010 and 2011, and (3) fund the Puerto Rico Economic Stimulus Fund.

On June 30, 2010, COFINA issued Sales Tax Revenue Bonds, First Subordinate Series 2010C, Series 2010D (Issuer Subsidy Build America Bonds) and Series 2010E (Issuer Subsidy Recovery Zone Economic Development Bonds) amounting to approximately $1,619 million, $89.4 million, and $92.8 million, respectively. Upon compliance with certain requirements of the United States Internal Revenue Code, COFINA will receive a subsidy payment from the U.S. federal government equal to 35% and 45% of the amount of each interest payment on the Series 2010D bonds and the Series E bonds, respectively.

The proceeds from the issuance of the Series 2010C, Series 2010D and Series 2010E were mainly used to (1) repay demand notes issued to GDB, (2) cover operational expenses of the Commonwealth for fiscal year 2011, (3) fund the Puerto Rico Stabilization Fund and (4) provide $732,797,165, along with $17,500,000 of other funds, to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust with an escrow agent for the purpose of generating resources for all future debt services payments of the $700,000,000 Series 2009A mandatory tender notes outstanding at June 30, 2010 (the "Refunded Bonds"), which are subject to mandatory tender for purchase on August 1, 2011. Accordingly, the Refunded Bonds are considered to be defeased and the liability has been removed from the statement of net assets (deficit). In the event the Refunded Bonds were not remarketed on August 1, 2011, the interest rate

would have increased from five percent (5%) to ten percent (10%). The reacquisition price exceeded the net carrying amount of the old debt by approximately $40,850,000, of which $39,899,000 are being netted against the new debt and amortized over the remaining life of the Refunded Bonds, which is shorter than the life of the new debt issued. This advance refunding was undertaken to reduce the total debt service payments over the next 30 years by $628 million (assuming the Refunded Bonds interest rate would have increased to 10% effective August 1, 2011), and resulted in an economic gain of $370 million.

Bonds payable outstanding at June 30, 2010 are as follows (expressed in thousands):

	General Obligation Bonds	Revenue Bonds	Total
Term bonds payable through 2045; interest payable semiannually at rates varying from 3.00% to 6.50%.	$ 3,931,400	$ 7,022,156	$ 10,953,556
Serial bonds payable through 2037; interest payable semiannually at rates varying from 3.25% to 6.50%.	5,160,660	1,081,260	6,241,920
Fixed rate bonds payable through 2058; interest payable at rates varying from 3.38% to 6.50%.	-	5,003,422	5,003,422
Capital appreciation bonds payable through 2057; no interest rate, yield ranging from 4.50% to 7.70%. Net of accreted discount of $168 million. (1)	164,266	3,775,531	3,939,797
The Children's Trust Fund tobacco settlement asset-backed bonds payable through 2057; interest payable annually at rates varying from 4.00% to 8.38%.	-	1,405,967	1,405,967
Capital Fund Program Bonds, maturing in various dates payable through 2024; interest payable at rates varying from 2.00% to 5.00%.	-	548,450	548,450
Bond payment obligation payable through 2011; interest payable at rates of 7.00%	48,220	-	48,220
Balance carried forward	9,304,546	18,836,786	28,141,332

(1) Revenue bonds include $743 million capital appreciation bonds convertible to fixed rate interest bonds on August 1, 2016, 2019, and 2020.

(Continued)

	General Obligation Bonds	Revenue Bonds	Total
Balance brought forward	$ 9,304,546	$ 18,836,786	$ 28,141,332
Yield curve bonds payable from 2009 through 2028; no interest rate, yield varying from 6.00% to 6.50%.	225,225	-	225,225
LIBOR-Based Adjustable Rate Bonds due on August 1, 2057; interest payable at a rate of 1.16%.	-	136,000	136,000
Inverse rate bonds payable from 2011 through 2012; interest payable at a rate varying from 6.00% to 6.50%.	10,300	-	10,300
Insured bonds payable from 2015 through 2019; interest payable a rate varying from 5.00% to 5.25%.	50,085	-	50,085
Total	9,590,156	18,972,786	28,562,942
Unamortized premium, net	230,823	(14,578)	216,245
Deferred refunding loss, net	(65,768)	(115,703)	(181,471)
Total bonds payable	$ 9,755,211	$ 18,842,505	$ 28,597,716

(Concluded)

As of June 30, 2010, debt service requirements for general obligation and revenue bonds outstanding, including accreted interest of capital appreciation bonds are as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Interest Subsidy (1)	Total
2011	$ 445,825	$ 1,193,732	$ (3,512)	$ 1,636,045
2012	459,592	1,208,581	(4,200)	1,663,973
2013	484,360	1,178,947	(4,200)	1,659,107
2014	511,315	1,152,822	(4,200)	1,659,937
2015	518,600	1,148,586	(4,200)	1,662,986
2016–2020	3,008,220	5,531,939	(21,000)	8,519,159
2021–2025	3,470,751	4,977,944	(21,000)	8,427,695
2026–2030	4,658,491	4,170,636	(21,000)	8,808,127
2031–2035	5,806,397	3,105,716	(21,000)	8,891,113
2036–2040	6,629,816	1,994,338	(21,000)	8,603,154
2041–2045	6,075,500	643,346	(9,447)	6,709,399
2046–2050	3,955,758	287,802	-	4,243,560
2051–2055	4,882,088	287,802	-	5,169,890
2056–2059	12,028,145	137,684	-	12,165,829
Total	52,934,858	$ 27,019,875	$ (134,759)	$ 79,819,974
Less unaccreted interest	(24,371,916)			
Plus unamortized premium, net	216,245			
Less deferred refunding loss, net	(181,471)			
Total	$ 28,597,716			

(1) Sales Tax Revenue Bonds, First Subordinate Series 2010D and 2010E were issued as Build America Bonds. COFINA will receive a subsidy payment from the federal government equal to 35% and 45% , respectively, of the amount of each interest payment.

At June 30, 2010, COFINA has $136,000,000 of LIBOR based adjustable rate bonds maturing on August 1, 2057. As explained below, COFINA has entered into a $136,000,000 interest rate swap, whereby it receives the same rate paid on the adjustable rate bonds and pays a fixed rate of 4.92% through August 1, 2057. Accordingly, COFINA has synthetically fixed the interest rate on the adjustable rate bonds.

The table that follows represents governmental activities debt service payments on certain general obligation and revenue variable-rate bonds and the net payments on associated hedging derivative instruments (see note 23) as of June 30, 2010. Although interest rates on variable rate debt and the current reference rates of hedging derivative instruments change over time, the calculations included in the table below are based on the assumption that the variable rate and the current reference rates of hedging derivative instruments on June 30, 2010 will remain the same for their term.

Year Ending June 30	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Hedging Derivative Instruments, Net	Total
2011	$ 2,450	$ 10,617	$ 50,519	$ 63,586
2012	2,550	10,610	50,438	63,598
2013	2,625	10,606	50,373	63,604
2014	3,915	10,581	50,293	64,789
2015	4,069	10,548	50,212	64,829
2016–2020	222,962	51,408	240,043	514,413
2021–2025	392,862	41,197	152,415	586,474
2026–2030	421,913	27,233	87,634	536,780
2031–2035	313,614	11,304	43,224	368,142
2036–2040	-	7,893	25,563	33,456
2041–2045	-	7,893	25,563	33,456
2046–2050	-	7,893	25,563	33,456
2051–2055	-	7,893	25,563	33,456
2056–2058	136,000	3,552	13,176	152,728
Total	$ 1,502,960	$219,228	$ 890,579	$ 2,612,767

COFINA's outstanding bonds are payable from amounts deposited in the Dedicated Sales Tax Fund in each fiscal year. The minimum amount to be deposited is the Pledged Sales Tax Base Amount, which for the fiscal year ended June 30, 2010, was $550,264,000. The Pledged Sales Tax Base Amount increases each fiscal year thereafter at a statutory rate of 4% up to $1,850,000,000. At June 30, 2010, the Pledged Sales Tax Base Amount, by year, is as follows (expressed in thousands):

Year Ending June 30		Amount
2011	$	572,275
2012		595,166
2013		618,972
2014		643,731
2015		669,480
2016–2020		3,771,166
2021–2025		4,588,200
2026–2030		5,582,247
2031–2035		6,791,657
2036–2040		8,263,089
2041–2045		9,250,000
2046–2050		9,250,000
2051–2055		9,250,000
2056–2058		5,550,000
Total	$	65,395,983

On September 17, 2009, the Commonwealth remarketed $93.8 million of variable rate Series 2007 A-4 bonds and converted them to fixed rate bonds, maturing July 1, 2031. These bonds are subject to redemption at the option of the Commonwealth on or after January 1, 2020 at the redemption price of 101% through December 31, 2020 and 100% after June 1, 2021. Concurrently with the issuance of the bonds, the Commonwealth issued $3.4 million of its Public Improvement Refunding Bonds, Series 2009 A to refund the remainder of the Series 2007 A-4 bonds.

On August 1, 2008, the Puerto Rico Housing Finance Authority (the "Authority"), a blended component unit of GDB, issued Capital Fund Modernization Program Subordinate Bonds amounting to $384 million and Housing Revenue Bonds amounting to $100 million. The proceeds from the issuance were mainly used to finance a loan (the "Loan") to Vivienda Modernization 1, LLC, (the "LLC"). The LLC will utilize moneys from the Loan for the purpose of financing a portion of the cost of the acquisition and modernization of various housing projects in the Commonwealth and paying certain transactional costs.

The LLC is a limited liability company created under the laws of the Commonwealth whose sole member is Vivienda Modernization Holdings 1, S.E. (the "Sole Member" or the "Partnership"), a civil partnership created under the laws of the Commonwealth. The partnership was created on August 1, 2008 by the Department of Housing of the Commonwealth of Puerto Rico ("DOH"), in its capacity as the general partner (the "General Partner") and Hudson SLP XL LLC, a Delaware limited liability company, as the Special Limited Partner (the "Special Limited Partner") and Hudson Housing Tax Credit Fund XL LP, a Delaware limited partnership, as the Investment Partnership (the "Investment Partnership"; collectively with the Special Limited Partner, the "Limited Partners"). The Partnership has been organized exclusively to be the sole member of the LLC, which entity has been organized exclusively to acquire a 99 year term Surface Right with respect to the Land and to develop, finance, rehabilitate, maintain, operate, lease and sell or otherwise dispose of each Apartment Complex, in order to obtain for the Partnership and its Partners statutory compliance, long-term appreciation, cash income, and tax benefits consisting, of tax credits and tax losses over the term hereof. In exchange for acquiring, constructing, or renovating and maintaining housing that is affordable to households with low or limited incomes, owners of such housing may be entitled to a direct credit on their federal taxes in accordance with Section 42 of the Internal Revenue Code of 1986, as amended.

Profits, losses and tax credits, are allocated in accordance with the Partnership Agreement. Profits and losses from operations and low-income housing tax credits in any one year shall be allocated 99.98% to the Investment Partnership, 0.01% to the Special Limited Partner and 0.01% to the General Partner. As defined in the Partnership Agreement, certain transactions and occurrences warrant special allocations of profits and losses. All other losses shall be allocated to the extent allowable under Section 704(b) of the IRC.

Pursuant to the Partnership Agreement, the Limited Partners are required to provide capital contributions totaling approximately $235 million to the Partnership ("Initial Projected Equity"), subject to potential adjustment based on the amount of low-income housing credits ultimately allocated to the Projects in addition to other potential occurrences as more fully explained in the Partnership Agreement. As of June 30, 2010, the Limited Partners have provided capital contributions totaling $21 million.

Pursuant to the Partnership Agreement, the General Partner is required to provide capital contributions totaling $10 to the Partnership. Should the Partnership have not sufficient funds available to pay the outstanding balance of the developer fee thereof, as defined, the General Partner shall be required to provide additional capital contributions to the Partnership in an amount

sufficient for the Partnership to pay such balance in full. The General Partner shall have no right or obligation to make any other capital contributions. As of June 30, 2010, the General Partner had provided no capital contributions. In addition, the DOH as general partner shall establish the Assurance Reserve Fund at initial closing in the amount of the initial capital contribution less $4 million (plus any initial capital contribution with respect to the apartment complexes). Amounts in the Assurance Reserve Fund shall be used, (i) upon the request of the General Partner, subject to the consent of the Special Limited Partner, or (ii) upon the direction to the Special Limited Partner, to meet financial obligations of the General Partner, other than for excess development costs, as provided in the Partnership Agreement. As of June 30, 2010, such reserve was maintained in the Partnership. The amount owed to DOH for the assurance reserve fund as of June 30, 2010, amounted to $17 million.

On August 7, 2008, the Puerto Rico Public Housing Administration ("PHA") and the LLC entered into a Regulatory and Operating Agreement (the "Agreement"). The PHA and the LLC have determined that it would be desirable for the public housing rental development to undergo comprehensive modernization (e.g. mew floors, electrical wiring, plumbing, windows, door, roofs and accessibility features) or development, which modernization or development will be undertaken and operated by the LLC.

On August 7, 2008, the DOH and PHA entered into an interagency agreement through which PHA transferred title to the public housing rental developments to the DOH for the subsequent sale to the LLC. In addition, the DOH will make a grant to the Authority from funds in the Program Modernization Fund in excess of the first receipts equal to $20 million to allow the Authority to make a permanent loan to the LLC. The Authority will provide to the LLC a (i) $100 million interim construction loan to be used in connection with the financing of the rehabilitation and/or construction work on the development from the proceeds of tax-exempt bonds issued by the Authority, (ii) $386.8 million capital fund loan in proceeds from certain tax-exempt bonds issued by the Authority, and (iii) a $100 million permanent loan.

On August 7, 2008, the LLC and the DOH entered into a Purchase and Sales Agreement through which the LLC acquired the surface rights of a property (the "Property") and the improvement erected on such property consisting of buildings and construction in progress with a net book value and cost of $45.9 million and $110 million, respectively, from the DOH under those certain deeds of Constitution of Surface Rights and Transfer of Improvements dated August 7, 2008, which will require the LLC to rehabilitate or construct on the Property four thousand one hundred thirty-two (4,132) residential rental units (the "Units" or collectively the "Development") all of which will receive the benefit of operating subsidy and benefit of low income housing tax credit under Section 42 of the Internal Revenue Code of 1986, as amended. Eighty-four (84) of the units, all of which will be located at the Brisas de Cayey II site, are to be newly constructed. The remaining units will be modernized.

Also, on August 7, 2008, the DOH entered into a loan agreement with the LLC in the amount of $102.8 million for the acquisition of the 33 residential rental properties (the "deferred purchase price note"). The LLC shall make payments equal to the amount of net available capital contributions, as defined, for the preceding calendar quarter.

The terms of the deferred purchase price note are described as set forth below:

Commitment	$102,889,957
Interest rate	3.55 %
Maturity date	Later of (i) funding of the last installment of the third capital contribution or (ii) August 7, 2013

The note shall be a full recourse liability of the LLC; however, none of the LLC's members has personal liability. As of June 30, 2010, the principal balance outstanding on the deferred purchase price note was $102.8 million and accrued interest was $13.3 million. At the same time, based on the Purchase and Sale Agreement, the PHA received $92.4 million from the LLC, which was used to pay eligible project expenses incurred by the PHA on an interim basis to minimize the expenditure of 2003 tax exempt bonds that were ineligible for inclusion in the credit transaction. In addition, PHA received $18.1 million from the LLC for Capital Fund Bonds funds previously expensed by the PHA from June and July 2009.

The PHA has entered into an Interagency Agreement dated August 7, 2008 with DOH, in DOH's capacity as general partner of the Partnership, to delegate management and operational duties related to the Development to the PHA as set forth in the Interagency Agreement. The LLC and the PHA also intend that the units be developed, operated and managed so as to assure receipt by the LLC of the aforementioned economic and tax benefits to the full extent available to the LLC.

Additionally, on August 7, 2008, the LLC entered into a Master Developer Agreement with the DOH to perform services in connection with the development, rehabilitation, and modernization of certain housing projects ("Developer Agreement"). Pursuant to the Master Developer Agreement, the DOH will earn a developer's fee in the amount of $75 million for services performed and to be performed. Payment of the developer's fee shall be subject to the terms and conditions of Section 6(a) (i-iv) of the Master Developer Agreement. As of June 30, 2010, the DOH earned and was paid developer fees in the amount of $9 million.

Under the Partnership Agreement, projects which do not meet the final completion schedule or satisfy other completion, occupancy, rent attainment or tax-credit related requirements or other Investor Limited Partner conditions to capital contributions with respect to such projects as set forth in the Partnership Agreement may under certain conditions be required to be purchased by DOH or its designee. In such case, DOH or its designee would assume the portion of the Loan allocated to such project(s), including both moneys remaining to be disbursed and repayment obligations, and would become a new additional borrower under the loan agreement. The LLC would be released with respect to the amount of the Loan assumed. DOH or its designee could also seek to obtain a limited partner (who might or might not be the original Investor Limited Partner) and tax credit equity contributions. Such transfer does not affect the obligation of DOH to grant moneys to the Authority to fund the permanent loan. As a requirement of such purchase, DOH or its designee is required to repay equity already contributed by the Investor Limited Partner, plus interest and a purchase premium.

(d) Commonwealth Appropriation Bonds

Over the years, GDB, as fiscal agent and bank for the Commonwealth, had extended lines of credit, advances, and loans to several agencies and component units in order to finance their capital improvement projects and to cover their operational deficits at the time. At different points in time, these loans were refunded through the issuance of Commonwealth appropriation bonds issued by the

Puerto Rico Public Finance Corporation (PFC), a blended component unit of GDB. PFC is the financing arm of GDB, which serves only as a conduit for the issuance of the bonds.

During June 2004, PFC advance refunded through the PFC 2004 Series A and B and PFC 2003 Series A through C Refunding Commonwealth Appropriation Bonds, a portion of certain of its outstanding Commonwealth Appropriation Bonds issued in prior years (except for the Health Facilities and Services Administration bonds described below, where no portion was refunded). The Commonwealth recognized a mirror effect of this advance refunding by PFC in its own debt in proportion to the portion of the Commonwealth's notes included in the PFC refunding. As a result, the Commonwealth considered defeased and, therefore, removed from the balance sheet the portion refunded of $775.7 million.

The repayment source for these bonds (both the refunding and unrefunded portions) consisted until June 30, 2006 of Commonwealth appropriations submitted for approval of the Legislature annually during the budget process of the Commonwealth.

During July 2006, the source for the 2007 debt service of these appropriation bonds came from PFC instead (not from legislative appropriations), through an advance of approximately $303 million. PFC got its advance repaid by COFINA, a blended component unit of the Commonwealth created in 2007 with the capacity to issue bonds to repay or refinance the advance from PFC, the appropriation bonds, the Qualified Zone Academic Bonds (QZAB) and other debt obligations to GDB, collectively referred as the extra constitutional debt. The COFINA debt in turn will be serviced with the revenues generated from the collection of the first 1% of the sales and use tax, which came in effect on November 15, 2006 (note 3c). Also during 2009, the Legislative Assembly increased COFINA's dedicated revenues by increasing the percentage of revenues generated from the sales and use tax to 2.75%.

On July 31, 2007, December 20, 2007, and June 26, 2008, COFINA, issued $2,667 million Sales Tax Revenue Bonds Series 2007A and $1,333 million Series 2007B, $499.9 million Series 2007C and $737 million Series 2008A, respectively, to refinance certain series of the Act 164 PFC Bonds outstanding and the corresponding notes issued by PFC by certain series of the Commonwealth's agencies and component units. The Series 2007A, B, C, and 2008A proceeds were deposited in escrow with the Bank of New York/Mellon as master escrow agent to pay interest for appropriation bonds through February 2011.

On October 21, 2008, PFC requested the trustee to restructure certain escrow funds. The funds had been established on July 31, 2007, for the refunding of interest on certain of PFC's taxable bonds (taxable Refunded Interest Only Escrow Requirements). After the escrow fund had been originally established, a portion of the outstanding principal of the bonds, which were the basis for the calculation of the Taxable Refunded Interest Only Escrow Requirements, was extinguished with the proceeds of bonds issued by COFINA. In addition, all the maturities of the PFC Series 2000B Bonds held in escrow were also paid on December 1, 2008. The reduction of principal as described, decreased the Taxable Interest Only Escrow Requirements, and as such, PFC instructed the trustee to restructure the escrows. The restructuring analysis provided approximately $158 million of which approximately $78 million were received by COFINA and approximately $80 million were received by the Commonwealth. In addition, COFINA received approximately $17 million in contributions from PFC. Amounts received were recorded as a special item in the statement of activities during the year ended June 30, 2009.

The outstanding balance of the Commonwealth appropriation bonds comprises the following obligations (expressed in thousands):

Act No. 164 restructuring	$ 497,856
Health Facilities and Services Administration	39,004
Office for the Improvement of Public Schools of Puerto Rico	79,744
Puerto Rico Maritime Shipping Authority (PRMSA)	100,510
Property tax settlement	22,963
Total Commonwealth appropriation bonds	$ 740,077

Act No. 164 Restructuring

On December 17, 2001, Act No. 164 was approved, which authorized certain government agencies and discretely presented component units to refund approximately $2.4 billion of their outstanding obligations with GDB, for which no repayment source existed, over a period not exceeding 30 years, and to be repaid with annual Commonwealth appropriations not to exceed $225 million. This refunding was done with Commonwealth appropriation bonds through several series issued by PFC during the period between December 2001 and June 2002.

Approximately $498 million of the aforementioned outstanding obligations belonged to the primary government, predominantly the Department of Health of the Commonwealth (health reform financing and other costs for approximately $1.1 billion) and the Department of the Treasury of the Commonwealth (the fiscal year 2001 deficit financing of $268 million and the obligation assumed for defective tax liens in the amount of approximately $132 million). The new combined bonds balance of the Act No. 164 restructuring bears interest at rates ranging from 4% to 6.25%. Debt service requirements in future years are as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2011	$ -	$ 27,313	$ 27,313
2012	-	27,725	27,725
2013	-	22,488	22,488
2014	26,196	25,411	51,607
2015	26,284	24,683	50,967
2016–2020	110,613	104,284	214,897
2021–2025	40,921	69,539	110,460
2026–2030	217,037	46,384	263,421
2031–2032	97,444	1,805	99,249
Total	518,495	$349,632	$868,127
Plus unamortized premium	9,645		
Less deferred refunding loss	(30,284)		
Total	$497,856		

Health Facilities and Services Administration

As of July 1, 1999, approximately $595 million (including unpaid interest) of a promissory note of the Health Facilities and Services Administration (HFSA) due to GDB was transferred to the Department of Health of the Commonwealth and restructured through Commonwealth appropriation bonds. The bonds bear interest at rates ranging between 5.90% and 6.20%. Principal and interest on the bonds are payable solely from legislative appropriations to be made pursuant to Act No. 223 of August 9, 1998. Act No. 223 provides that OMB shall include in the annual budget of the Commonwealth an amount equal to $56.5 million for the fiscal year 1998-99, and for the next succeeding 15 fiscal years the amount necessary to pay the principal of and interest on the bonds, up to a maximum annual amount of $57.7 million.

Debt service requirements in future years are as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2011	$ -	$ 2,040	$ 2,040
2012	-	2,040	2,040
2013	-	2,040	2,040
2014	10,665	1,720	12,385
2015	11,315	1,061	12,376
2016–2017	17,024	9,677	26,701
Total	$39,004	$18,578	$57,582

Office for the Improvement of Public Schools of Puerto Rico

Previous public schools infrastructure improvement loans provided additional funds for major repairs and improvements to the public schools in Puerto Rico. This activity is administered by the Office for the Improvement of the Public Schools of Puerto Rico (OIPS), included as part of the general fund of the primary government. These loans were refunded originally through the issuance of Commonwealth appropriation bonds pursuant to Act No. 85 of June 13, 1998 (Act 85). The new combined bonds bear interest at rates ranging from 4.10% to 5.75%. As of June 30, 2010, approximately $79.7 million was outstanding.

Debt service requirements in future years are as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2011	$ -	$ 5,096	$ 5,096
2012	-	5,262	5,262
2013	6,100	3,651	9,751
2014	-	3,532	3,532
2015	-	3,532	3,532
2016–2020	7,940	17,476	25,416
2021–2025	20,190	14,846	35,036
2026	54,395	1,062	55,457
Total	88,625	$54,457	$143,082
Plus unamortized premium	2,364		
Less deferred refunding loss	(11,245)		
Total	$ 79,744		

Puerto Rico Maritime Shipping Authority

A promissory note payable owed by PRMSA to GDB was assumed by the Commonwealth in connection with the sale of the maritime operations of PRMSA. Commonwealth appropriation bonds were issued to refund this liability. The new combined bonds balance bears interest at a variable rate ranging from 4.60% to 5.55%. Debt service requirements in future years are as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2011	$ -	$ 5,810	$ 5,810
2012	-	5,810	5,810
2013	-	5,810	5,810
2014	12,945	5,264	18,209
2015	12,415	4,640	17,055
2016–2020	59,240	13,244	72,484
2021–2025	15,905	5,657	21,562
2026–2030	13,765	1,814	15,579
Total	$ 114,270	$ 48,049	$ 162,319
Less unamortized discount	(134)		
Less deferred refunding loss	(13,626)		
Total	$ 100,510		

Property Tax Settlement

During fiscal year 1996, the Commonwealth refinanced the liability for the settlement of the property taxes owed to the municipalities of Puerto Rico. Commonwealth appropriation bonds were issued to refund this liability. The new combined bonds balance bears interest at rates ranging from 4.10% to 4.90%. Debt service requirements in future years are as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2014	$11,469	$ 6,922	$18,391
2015	10,779	7,631	18,410
Total	22,248	$14,553	$36,801
Plus accreted discount	8,163		
Less deferred charges arising from debt refunding	(7,448)		
Total	$22,963		

(e) Advance Refunding, Defeased Bonds, and Refunding of Commonwealth Appropriation Bonds

In prior years, the Commonwealth defeased certain general obligation and other bonds by placing the proceeds of the bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust's account assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2010, approximately $1.3 billion of bonds outstanding from prior years advance refunding are considered defeased.

In addition, PBA has defeased certain revenue bonds in prior years by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old debts. Accordingly, the trust's account assets and liabilities for the defeased bonds are not included in the statement of net assets (deficit). As of June 30, 2010, approximately $940 million of PBA bonds are considered defeased.

(f) Notes Payable to Component Units and Private Banks

The Commonwealth has entered into various short-term line of credit agreements with GDB consisting of the following at June 30, 2010 (expressed in thousands):

Agency	Purpose	Interest Rate	Line of Credit	Outstanding Balance
Department of the Treasury	To fund information technology project	125 bp over GDB's commercial paper rate	$ 44,868	$ 14,784
Department of the Treasury	Purchase of mobile X-ray machines	125 bp over 3 months LIBOR	12,000	2,669
Department of the Treasury	Repay a draw of letter of credit securing the Puerto Rico Public Improvement bonds	150 bp over Federal Reserve Prime Rate	115,000	100,000
Department of Health	To cover diagnose and treatment costs	125 bp over 3 months LIBOR	8,000	5,718
Department of Housing	To reimburse to the Puerto Rico Housing Finance Authority, a blended component unit of GDB, for certain advances to the Santurce Revitalization Project	125 bp over 3 months LIBOR	19,282	11,516
			$199,150	$134,687

The Commonwealth financed certain other long-term liabilities through GDB and other component units. The outstanding balance at June 30, 2010 on the financing provided by GDB comprises the following, all within governmental activities (expressed in thousands):

GDB

Department of the Treasury	$ 671,694
Public Buildings Authority	161,980
Office of Management and Budget	129,263
Department of Education	115,010
Department of Transportation and Public Works	80,180
Department of Agriculture	65,338
Department of Justice	51,384
Department of Health	38,427
Police Department	34,450
Department of Housing	26,442
Puerto Rico Court Administration Office	25,360
Office of the Superintendent of the Capitol	16,727
Department of Recreation and Sports	9,315
Correction Administration	837
Notes payable to GDB	$1,426,407

Other Components Units:

Health facilities agreement payable to the Medical Science Campus of UPR	$ 43,888
Note payable to PREPA	19,000
Notes payable to other component units	$ 62,888

As of June 30, 2010, the Department of the Treasury of the Commonwealth has entered into various line of credit agreements with GDB amounting to a maximum of $1.8 billion for different purposes as presented in the following table. The purpose, interest rate, maturity date, and amount outstanding under each individual agreement at June 30, 2010 consist of the following (expressed in thousands):

Purpose	Interest Rate	Maturity	Line of Credit	Outstanding Balance
To finance payroll and operational expenditures of the Commonwealth for fiscal year 2006	5.50%	June 30, 2036	$ 741,000	$ 230,000
Resources to meet appropriations in annual budget of the Commonwealth (fiscal year 2004) and federal programs expenditures	125 bp over 3 month libor	June 30, 2018	640,000	150,000
Capital improvements projects of agencies and municipalities	150 bp over GDB's commercial paper rate	June 30, 2019	130,000	90,878
To pay agencies debt	125 bp over 3 month libor	September 30, 2012	100,000	75,000
To finance capital improvements projects for several government agencies	7%	June 30, 2018	105,000	74,753
Resources to cover the operational needs of the catastrophic disasters fund, (fiscal year 2004) of the Puerto Rico Health Insurance Administration and the Department of the Family	125 bp over 3 month libor	September 30, 2015	79,930	43,297
Acquisition of Salinas Correctional Facilities	125 bp over 3 month libor	June 30, 2018	15,000	7,766
Total			$ 1,810,930	$ 671,694

On April 27, 2009, GDB provided to the Public Buildings Authority (PBA) a non-revolving credit facility in the maximum principal amount of $98.5 million bearing interest on the unpaid principal amount of each advance at a fluctuating annual rate equal to 1.50% over and above the Prime Rate or at such other rate determined by GDB. The proceeds will be used exclusively for the payment of certain amounts due by PBA to its suppliers and service providers. The loan and the accrued interest are due on June 30, 2011 and will be payable from all funds generated by PBA and any other properties owned and pledged to GDB. As of June 30, 2010, $4 million were outstanding. PBA also maintains a $75 million line-of-credit agreement with GDB for payment of operational expenses.

Borrowings under this line of credit agreement bear interest at a fixed rate of 7%, and are payable upon maturity on June 30, 2018. As of June 30, 2010, $70 million were outstanding. In addition, on May 2, 2008, the Authority executed two Loan Agreements with GDB for the interim financing of its Capital Improvement Program in an amount not to exceed $226 million, bearing interest a variable rate of 1.5% over Prime Rate with a minimum rate of 5%. The loans and the accrued interest are due on October 31, 2010 and will be repaid from the proceeds of the next bond issuance of the Authority divided into $209 million on a tax-exempt basis and $16.9 million on a taxable basis. As of June 30, 2010, $88 million were outstanding. An additional line-of-credit was entered into between GDB and PBA on February 27, 2009 for a maximum amount of $64.5 million, bearing interest daily from the drawings date until its repayment at a rate of interest per annum equal to the Prime Rate plus 150 basis points not to exceed 12%. This loan was issued with the purpose of paying the interest component of certain outstanding revenue and revenue refunding bonds of the PBA. The loan and interest are payable upon maturity of the line of credit on June 30, 2010 and were paid with the proceeds from the Government Facilities Revenue Refunding Bonds, Series Q.

On June 5, 2006, the Office of Management and Budget entered into a $150 million line of credit agreement with GDB to provide economic assistance for disasters and emergencies. Borrowings under this line of credit agreement bear interest at variable rates based on 125 basis points over three month LIBOR, and are payable upon the maturity of the line of credit on September 30, 2011. As of June 30, 2010, $129.3 million were outstanding.

On February 6, 2003, the Department of Education of the Commonwealth entered into a $25 million line of credit agreement with GDB for the purchase of equipment and for school improvements. Borrowings under this line of credit agreement bear interest at variable rates based on 125 basis points over three month LIBOR, and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2010, $5 million was outstanding. On August 4, 2002, the Department of Education of the Commonwealth entered into an additional $140 million line of credit agreement with GDB in order to reimburse the Department of the Treasury of the Commonwealth for payments made on their behalf for state funds used to fund federal program expenditures. Borrowings under this line of credit agreement bear interest at variable rates based on 125 basis points over three month LIBOR and were payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2010, $110 million still remains outstanding related to the borrowing. The line of credit is expected to be repaid upon collection of the federal grants.

The DTPW entered into four line-of-credit agreements with GDB amounting to $118 million for improvement and maintenance of roads around the island. Borrowings under these lines of credit bear interest at a 7% rate and are payable upon maturity of the line of credit on June 30, 2018. As of June 30, 2010, $80.2 million was outstanding.

On August 9, 1999, the Department of Agriculture of the Commonwealth entered into a $125 million non-revolving line-of-credit agreement with GDB to provide economic assistance to the agricultural sector, which sustained severe damages caused by Hurricane Georges in 1998. As of February 24, 2004 the line-of-credit increased by $50 million resulting in a total amount of $175 million. Borrowings under this line-of-credit agreement bear interest at variable rates based on 125 basis points over three-month LIBOR; starting on October 1, 2009 the outstanding balance will bear interest at a fixed rate of 7% and is payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2010, $65.3 million were outstanding.

On October 2, 2002, the Department of Justice of the Commonwealth entered into a $90 million line of credit agreement with GDB for the financing of 12 public improvement projects for the Municipality of Ponce pursuant to a court order. Borrowings under this line of credit agreement bear

interest at variable rates and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2010, $19 million related to this line of credit agreement were outstanding. On August 8, 2005, the Department of Justice of the Commonwealth entered into an additional agreement (amendment) to increase line-of-credit of $90 million to $110 million to cover various projects in Ponce. Borrowings under this line of credit agreement bear interest at 7% rate and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2010, this line of credit agreement amounted to $32 million.

In August 2003, the Department of Health of the Commonwealth entered into a $30 million line of credit agreement with GDB in order to repay certain outstanding debts that the PRMeSA had with other agencies and suppliers. Borrowings under this line of credit agreement bear interest at a fixed rate of 7% and are payable upon maturity of the line of credit on June 30, 2018. As of June 30, 2010, $23 million related to this line of credit agreement were outstanding. On November 8, 2004, the Department of Health entered into an additional $58.5 million line of credit agreement with GDB for the financing of a project of the Department of Health and PRMeSA. Borrowings under this line of credit agreement bear interest at variable rates based on 150 basis points over GDB's commercial paper rate and are payable upon the maturity of the line of credit on October 31, 2014. As of June 30, 2010, the outstanding balance of this line of credit agreement amounted to $15 million.

On July 29, 2004, the Police Department entered into a $48 million line of credit agreement with GDB for the acquisition of vehicles and high technology equipment. Borrowings under this line of credit agreement bear interest based on the All Inclusive Total Interest Cost of the Medium Term Notes, Series B, plus a mark-up of 1.25% and are payable upon the maturity of the line of credit on September 30, 2014. The outstanding balance of this line of credit agreement amounted to $34.5 million at June 30, 2010.

On December 3, 2007, the Department of Housing entered into a $30 million line-of-credit agreement with GDB for the purchase of Juan C. Cordero Dávila building. Borrowings under this line of credit agreement bear interest based on .75 basis points over three month LIBOR and are payable upon maturity of the line of credit on February 28, 2038. As of June 30, 2010, $26.4 million related to this line of credit agreement were outstanding.

On May 7, 2001, the Puerto Rico Court Administration Office (the "Office") entered into a $49.4 million no revolving line of credit agreement with GDB for operating purposes. Borrowings under this line of credit agreement bear interest at a variable rate of three month LIBOR plus 1%, not to exceed 8%. The Office must deposit $6 million a year, from the total fees collected on the filing of civil cases, in a special fund created by the Department of the Treasury of the Commonwealth, which is pledged for repayment until July 31, 2015. As of June 30, 2010, approximately $25.4 million remains outstanding.

On February 15, 2002, the Office of the Superintendent of the Capitol (Superintendent) entered into a $35 million line of credit agreement with GDB for the Office of the Superintendent of the Capitol parking's construction. Borrowings under this line of credit agreement bear interest at a fixed rate of 7% and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2010, $16.7 million remained outstanding from the line of credit agreement.

On January 18, 2005, the Department of Recreation and Sports (DRS) entered into a $17.2 million line of credit agreement with GDB for the development of a series of recreational projects at different municipalities. Borrowings under this line of credit agreement bear interest based on 150 basis points over GDB's commercial paper rate and are payable upon the maturity of the line of credit on June 30, 2018. The proceeds of the line of credit are used for development and

improvement of recreational facilities As of June 30, 2010, $0.4 million were outstanding. An additional line-of-credit was entered into between GDB and the DRS in the maximum principal amount of $17.6 million bearing interest on the unpaid principal amount of each advance at a fixed rate of 7% and are payable upon the maturity of the line of credit on June 30, 2018. The line-of-credit proceeds are used for development and improvement of recreational facilities. As of June 30, 2010, $9 million were outstanding.

On May 12, 2004, the Correction Administration of the Commonwealth entered into a $60 million line-of-credit agreement with GDB for improvements to certain correctional facilities. Borrowings under this line-of-credit agreement bear interest at fixed 7% rate and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2010, $0.8 million were outstanding.

As of July 1, 1999 debts of approximately $102 million payable to UPR, a discretely presented component unit, in relation to outstanding noninterest bearing debt accumulated in prior years by HFSA were transferred to the Commonwealth. On September 7, 2004, additional debts of approximately $71.2 million were also restructured and combined with the previous financing arrangement. As of June 30, 2010, $25 million remains outstanding of this arrangement. During the fiscal year 2009, the OMB and the UPR signed an intra-agency agreement amounting to $36 million to pay for appropriation for fiscal year 2007 and 2008. In April 2011 the OMB settled this intra-agency agreement for $18.6 million. Future amounts required to pay principal balances at June 30, 2010 are expected to be as follows (expressed in thousands):

Year Ending June 30	
2011	$ 7,570
2012	26,599
2013	8,000
2014	1,719
Total	$ 43,888

The noninterest bearing note payable to PREPA, a discretely presented component unit, consists of $19 million of fuel adjustment subsidy due by the Commonwealth and the refinancing during 2004 of $24.1 million of other accumulated debt by the Commonwealth's agencies with PREPA. The $19 million balance at June 30, 2010 is expected to be paid during the year ending June 30, 2011.

With the exception of a few lines of credit having a defined source of repayment, the remaining lines of credit described above used Commonwealth appropriations as the source of repayment until June 30, 2007. Beginning in fiscal year 2008, these lines of credit are expected to be repaid or refunded with a combination of Commonwealth appropriations and COFINA under the mechanism described in note 15(c).

(g) Compensated Absences

Long-term debt includes approximately $1.5 billion of accrued vacation and sick leave benefits at June 30, 2010. The total liability of compensated absences recorded as governmental and business type activities amounted to $1.5 billion and $4.2 million, respectively.

(h) Net Pension Obligation

The amount reported as net pension obligation of approximately $8 billion represents the cumulative amount owed by the Commonwealth for the unfunded prior years' actuarially required pension contributions to the ERS, JRS, and the TRS (collectively known as the pension plans) (see note 20). The net pension obligation has been recorded as a liability in governmental activities in the accompanying statement of net assets (deficit).

(i) Unpaid Lottery Prizes

The amount reported as unpaid lottery prizes represents the lottery prizes payable of the Lottery of Puerto Rico (commonly known as "Traditional Lottery") and the Additional Lottery System (commonly known as "Lotto") jointly known as the Lottery Systems at June 30, 2010. The minimum annual payments related to unpaid awards of both lotteries are as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2011	$ 56,561	$ 8,434	$ 64,995
2012	26,540	9,145	35,685
2013	23,337	9,641	32,978
2014	20,447	9,911	30,358
2015	17,279	9,649	26,928
2016–2020	56,204	43,399	99,603
2021–2025	20,530	23,945	44,475
2026–2030	3,003	3,898	6,901
Total	$ 223,901	$ 118,022	$ 341,923

The minimum annual payments related to unpaid awards of Lotto excluded unclaimed prizes liability of approximately $5 million at June 30, 2010, which is reported as prizes payable — current portion.

The liability for unpaid lottery prizes is reported in the accompanying statement of net assets (deficit) – business – type activities and statement of net assets (deficit) — proprietary funds.

(j) Claims Liability for Insurance Benefits

The Commonwealth provides unemployment compensation, non occupational disability, and drivers' insurance coverage to public and private employees through various insurance programs administered by the Department of Labor and Human Resources of the Commonwealth. These insurance programs cover workers against unemployment, temporary disability, or death because of work or employment related accidents or because of illness suffered as consequence of their employment.

The Commonwealth establishes liabilities for incurred but unpaid benefits and benefit adjustment expenses based on the ultimate cost of settling the benefits. Insurance benefit claim liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The liability for insurance benefits claims is reported as a current liability in the accompanying statement of net assets (deficit) business type activities — and

statement of net assets (deficit) proprietary funds. The liability as of June 30, 2010, amounts to $103 million.

(k) Obligations under Capital Lease Arrangements

The Commonwealth is obligated under capital leases with third parties that expire through 2038 for land, buildings, and equipment. At June 30, 2010, the capitalized cost of the land, buildings, and equipment amounted to approximately $271.1 million and is included in the accompanying government wide statement of net assets (deficit) within capital assets.

The present value of future minimum capital lease payments at June 30, 2010 reported in the accompanying government wide statement of net assets (deficit) is as follows (expressed in thousands):

Year Ending June 30	
2011	$ 23,416
2012	23,005
2013	26,257
2014	22,362
2015	22,107
2016–2020	105,651
2021–2025	100,986
2026–2030	100,011
2031–2035	58,595
2036–2038	14,775
Total future minimum lease payments	497,165
Less amount representing interest costs	(262,181)
Present value of minimum lease payments	$ 234,984

Leased land, buildings, and equipment under capital leases in capital assets at June 30, 2010, include the following (expressed in thousands):

Land	$ 7,960
Buildings	254,886
Equipment	8,269
Subtotal	271,115
Less accumulated amortization	(48,500)
Total	$ 222,615

Amortization charge applicable to capital leases and included within depreciation expense of capital assets amounted to $7.4 million in 2010.

The Commonwealth is also committed under numerous operating leases, covering land, office facilities, and equipment. Rental expenditures within the governmental funds for the year ended June 30, 2010 under such operating leases were approximately $115 million.

The future minimum lease payments for these leases are as follows (expressed in thousands):

Year Ending June 30	
2011	$ 105,411
2012	79,119
2013	64,704
2014	37,433
2015	22,565
2016–2020	47,418
2021–2025	23,949
2026–2030	11,702
2031–2035	4,048
Total future minimum lease payments	$ 396,349

(l) Other Long-term Liabilities

The remaining long-term liabilities of governmental activities at June 30, 2010 include (expressed in thousands):

Liability for legal claims and judgments (note 19)	$ 1,301,299
Liability for salary increases granted through legislation	318,375
Liability to U.S. Army Corps of Engineers (note 13)	205,000
Employees' Christmas bonus	153,348
Liability for federal cost disallowances (note 19)	102,790
Liability to the Puerto Rico System of Annuities and Pensions for Teachers	53,820
Other	57,922
Total	$ 2,192,554

As described in note 13, the Commonwealth has a debt obligation with the U.S. Army Corps of Engineers in relation to the construction of the Cerrillos Dam and Reservoir project and the Portugues river and the Bucana river projects.

The Commonwealth, through laws dating back to 1954, has granted eligible police agents, various salary-related benefits such as annual salary increases, awards for years of service, and monetary benefits awarded for special assignments, among others. As of June 30, 2010, the Commonwealth's liability related to these salary-related benefits amounted to approximately $318.4 million.

On May 31, 2004, the Puerto Rico System of Annuities and Pensions for Teachers (TRS) claimed the Office of Management and Budget of the Commonwealth of Puerto Rico resources that should had been awarded to TRS pursuant to Law No. 62 of September 4, 1992, (Law No. 62) as amended, which establishes an increase of 3% in pension annuities every three years for those members who meet certain eligibility requirements. In addition, there have been other laws that granted benefits, such as summer and Christmas bonuses, among others. Most of the funds used to cover these

benefits are budgeted by the Commonwealth through legislative appropriations. Nevertheless, the cost of pension benefits that increased from 1992 to June 30, 2004, was not received in full by the TRS from legislative appropriations.

On April 23, 2010, the Office of Management and Budget ("OMB") and the TRS signed an agreement amounting to $53.8 million through which the TRS settled its claim related to Law No. 62 and Law No. 226, approved on August 10, 1998.

Amounts owed will be paid as follows (expressed in thousands):

Fiscal Period	Amount
2010–2011	$ 10,764
2011–2012	10,764
2012–2013	10,764
2013–2014	10,764
2014–2015	10,764
Total	$ 53,820

(m) Fiduciary Funds

On February 27, 2007, the ERS's administration and GDB, acting as ERS's fiscal agent, presented to the Board of Trustees, a financial transaction for the issuance of pension funding bonds in order to reduce the System's unfunded actuarial accrued liability. The ERS authorized the issuance of one or more series of bonds (the "Bonds") in order to increase the funds currently available to pay pension benefits to certain of its beneficiaries and reduce its unfunded accrued actuarial pension liability. The ERS pledged future employer contributions to the payment of the Bonds, invested the proceeds of the Bonds and used these investments and the earnings thereon to provide such pension benefits to its beneficiaries.

On January 31, 2008, the ERS issued the first series of Bonds, which consisted of approximately $1.6 billion aggregate principal amount of Senior Pension Funding Bonds, Series A (the "Series A Bonds"). On June 2, 2008, the ERS issued the second of such series of Bonds; which consisted of approximately $1,059 million aggregate principal amount of Senior Pension Funding Bonds, Series B (the "Series B Bonds"). Finally, on June 30, 2008, the ERS issued the third and final of such series of Bonds, which consisted of approximately $300 million aggregate principal amount of Senior Pension Funding Bonds, Series C (the "Series C Bonds"). The following is a summary of changes in the bonds payable principal balance (expressed in thousands):

	Balance at June 30, 2009	Additions/ Accretion	Balance at June 30, 2010
5.85% to 6.45% Term Bonds Series A due July 1, 2058	$ 1,592,875	$ 3,093	$ 1,595,968
6.25% to 6.55% Term Bonds Series B due July 1, 2058	1,075,774	16,950	1,092,724
6.15% to 6.50% Term Bonds Series C due July 1, 2043	300,349	158	300,507
Bond discounts	(7,639)	215	(7,424)
Total	$ 2,961,359	$ 20,416	$ 2,981,775

As of June 30, 2010, the outstanding balance of the Bonds is as follows (in thousands):

Description	
Series A Bonds:	
Capital Appreciation Bonds, maturing in 2028, bearing interest at 6.20%	$ 52,198
Term Bonds, maturing in 2023, bearing interest at 5.85%	200,000
Term Bonds, maturing from 2031 through 2038, bearing interest at 6.15%	679,000
Term Bonds, maturing from 2039 through 2042, bearing interest at 6.20%	332,770
Term Bonds, maturing from 2055 through 2058, bearing interest at 6.45%	332,000
Total Series A Bonds outstanding	1,595,968
Series B Bonds:	
Capital Appreciation Bonds, maturing from 2028 through 2030, bearing interest at 6.40%	160,833
Capital Appreciation Bonds, maturing from 2031 through 2034, bearing interest at 6.45%	115,791
Term Bonds, maturing in 2031, bearing interest at 6.25%	117,100
Term Bonds, maturing from 2036 through 2039, bearing interest at 6.30%	270,000
Term Bonds, maturing from 2055 through 2058, bearing interest at 6.55%	429,000
Total Series B Bonds outstanding	1,092,724
Series C Bonds:	
Capital Appreciation Bonds, maturing in 2030, bearing interest at 6.50%	2,507
Term Bonds, maturing in 2028, bearing interest at 6.15%	110,000
Term Bonds, maturing in 2038, bearing interest at 6.25%	45,000
Term Bonds, maturing in 2043, bearing interest at 6.30%	143,000
Total Series C Bonds outstanding	300,507
Total bonds outstanding	2,989,199
Less bonds discount	(7,424)
Bonds payable — net	$2,981,775

Series A Bonds — The aggregate principal amount of the Series A Bonds issued amounted to approximately $1,589 million of which $1,544 million were issued as term bonds (the "Series A Term Bonds") and $45 million were issued as capital appreciation bonds ("the Series A Capital Appreciation Bonds"). Interest on the Series A Bonds accrues, or compounds (in the case of the Series A Capital Appreciation Bonds), from their date of delivery. Interest in the Series A Term Bonds are payable monthly on the first day of each month, commencing on March 1, 2008. Interest on the Series A Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Capital Appreciation Bonds on each January 1 and July 1, commencing on July 1, 2008 (Compounding Dates), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The Series A Bonds are subject to redemption at the option of the ERS from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series A Capital Appreciation Bonds, the accreted amount) of the Series A Bonds, plus accrued interest to the redemption date, and without premium.

Series B Bonds — The aggregate principal amount of the Series B Bonds amounted to approximately $1,059 million of which $816 million were issued as term bonds (the "Series B Term Bonds") and

$243 million were issued as capital appreciation bonds (the "Series B Capital Appreciation Bonds"). Interest on the Series B Bonds accrues, or compounds (in the case of the Series B Capital Appreciation Bonds), from their date of delivery. Interest in the Series B Term Bonds are payable monthly on the first day of each month, commencing on July 1, 2008. Interest on the Series B Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Series B Capital Appreciation Bonds on each January 1 and July 1, commencing on July 1, 2008 (Compounding Dates), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The Series B Bonds are subject to redemption at the option of the ERS from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series B Capital Appreciation Bonds, the accreted amount) of the Series B Bonds, plus accrued interest to the redemption date, and without premium.

Series C Bonds — The aggregate principal amount of the Series C Bonds amounted to approximately $300 million of which $298 million were issued as term bonds (the "Series C Term Bonds") and $2 million were issued as capital appreciation bonds (the "Series C Capital Appreciation Bonds"). Interest on the Series C Bonds accrues, or compounds (in the case of the Series C Capital Appreciation Bonds), from their date of delivery. Interest in the Series C Term Bonds are payable monthly on the first day of each month, commencing on August 1, 2008. Interest on the Series C Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Series C Capital Appreciation Bonds on each January 1 and July 1, commencing on July 1, 2009 (Compounding Dates), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The Series C Bonds are subject to redemption at the option of the ERS from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series C Capital Appreciation Bonds, the accreted amount) of the Series C Bonds, plus accrued interest to the redemption date, and without premium.

Debt service requirements in future years on pension funding bonds as of June 30, 2010 are as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2011	$ -	$ 166,519	$ 166,519
2012	-	166,519	166,519
2013	-	166,519	166,519
2014	-	166,519	166,519
2015	-	166,519	166,519
2016–2020	-	832,595	832,595
2021–2025	200,000	809,195	1,009,195
2026–2030	186,112	844,369	1,030,481
2031–2035	342,267	708,935	1,051,202
2036–2040	1,240,170	526,825	1,766,995
2041–2045	218,100	254,552	472,652
2046–2050	-	247,568	247,568
2051–2055	183,200	247,568	430,768
2056–2059	577,800	72,707	650,507
	2,947,649	$5,376,909	$8,324,558
Plus accreted interest	41,550		
Less unamortized discount	(7,424)		
Total	$2,981,775		

Pledge of Employer Contributions Pursuant to Security Agreement

The ERS entered into a Security Agreement with the Fiscal Agent for the benefit of the bondholders, pursuant to which the ERS pledged to the Fiscal Agent, and granted the Fiscal Agent a security interest in employer contributions made after January 31, 2008, which was the date of issuance of the first series of bonds, and the funds on deposit with the Fiscal Agent under the various accounts established under the Pension Funding Bond Resolution (the “Resolution”).

The Resolution and the Security Agreement constitute a contract between the ERS and the Fiscal Agent, on behalf of owners of the bonds. The pledge, covenants and agreements of the ERS set forth in the Resolution and the Security Agreement shall be for the equal benefit, protection and security of the owners of the bonds, regardless of time or times of their issuance or maturity, and shall be of equal rank, without preference, priority or distinction of any of the bonds over any other bond, except as expressly provided in or permitted by the Resolution. The pledge by the ERS of the pledged funds, which consist of all employer contributions that are made after January 31, 2008, which was the date of issuance of the first series of bonds, in accordance with the Act and amounts on deposit in the different accounts created pursuant to the Resolution for the benefits of the owners of the bonds, is irrevocable so long as any bonds are outstanding under the terms of the Resolution.

(n) Discretely Presented Component Units

Notes and appropriation bonds payable are those liabilities that are paid out of the component units' own resources. These notes and appropriation bonds do not constitute a liability or debt of the primary government.

The outstanding balance of notes payable at June 30, 2010 is as follows (expressed in thousands):

Component Unit	Interest rates	Maturity Through	Balance at June 30, 2009 as Restated	Additions	Reductions	Balance at June 30, 2010	Amounts Due Within One Year
Government Development Bank for Puerto Rico	2.5%–6.97%	2040	$2,098,725	$1,371,076	$ 338,045	$3,131,756	$158,614
Puerto Rico Electric Power Authority	3.36%–4.30%	2023	1,054,791	150,000	1,139,270	65,521	15,090
State Insurance Fund Corporation	6.31%– 6.84%	2019	48,283	-	4,480	43,803	2,160
Economic Development Bank for Puerto Rico	4.51%–6.30%	2023	293,000	181,321	18,000	456,321	-
Puerto Rico Industrial Development Company	5.10%–8.45%	2024	84,003	4,441	4,779	83,665	5,137
Puerto Rico Land Authority	2.55%	2031	2,821	-	2,121	700	-
Puerto Rico Ports Authority	Variable	2028	605,449	9,196	43,832	570,813	173,334
Agricultural Services and Development Administration	Variable	2011	11,354	5,604	11,354	5,604	5,604
Puerto Rico Trade and Export Company	4.75%–6.14%	2030	200,570	76,618	80,000	197,188	16,273
Puerto Rico Aqueduct and Sewer Authority	3.15%	2012	247,436	-	2,748	244,688	2,944
Puerto Rico Metropolitan Bus Authority	6.68%	2012	42,130	-	1,720	40,410	4,720
Total notes payable component units			$4,688,562	$1,798,256	$1,646,349	$4,840,469	$383,876

Debt service requirements on component units’ notes payable with fixed maturities at June 30, 2010 were as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2011	$ 383,876	$ 242,189	$ 626,065
2012	942,016	206,673	1,148,689
2013	715,732	166,558	882,290
2014	459,385	137,381	596,766
2015	651,178	109,350	760,528
2016–2020	1,100,594	385,731	1,486,325
2021–2025	456,024	138,700	594,724
2026–2030	115,062	41,376	156,438
2031–2035	4,114	-	4,114
2036–2040	5,596	-	5,596
Premium, net	6,892	-	6,892
Total	$4,840,469	$1,427,958	$6,268,427

The table that follows represents debt service payments on a component unit's variable-rate note payable and the net payments on associated hedging derivative instrument as of June 30, 2010. Although interest rates on variable rate debt and the current reference rate of hedging derivative instrument change over time, the calculations included in the table below are based on the assumption that the variable rate and the current reference rate of the hedging derivative instrument on June 30, 2010 will remain in the same of their term.

Year Ending June 30	Variable-Rate Note Payable Principal	Variable-Rate Note Payable Interest	Hedging Derivative Instruments, Net	Total
2011	$ 22,747	$ 12,776	$ 15,621	$ 51,144
2012	22,747	12,025	15,621	50,393
2013	22,747	11,273	15,621	49,641
2014	22,747	10,521	15,621	48,889
2015	22,747	9,770	15,621	48,138
2016–2020	113,737	37,575	31,243	182,555
2021–2025	113,737	18,788	-	132,525
2026–2030	45,496	2,254	-	47,750
Total	$ 386,705	$ 114,982	$ 109,348	$ 611,035

Commonwealth appropriation bonds payable outstanding at June 30, 2010 are as follows (expressed in thousands):

Component Unit	Interest rates	Maturity Through	Balance at June 30, 2009	Additions	Reductions	Balance at June 30, 2010	Amounts Due Within One Year
Puerto Rico Aqueduct and Sewer Authority	1.25% - 6.15%	2031	$676,794	$ -	$5,245	$671,549	$8,615
Puerto Rico Tourism Company	4.00%–6.15%	2031	60,664	-	136	60,528	-
Land Authority of Puerto Rico	2.55%	2031	76,715	-	-	76,715	-
Government Development Bank for Puerto Rico	4.10%–5.25%	2031	4,812	-	-	4,812	-
Puerto Rico Infrastructure Financing Authority	0.539%	2031	4,956	-	-	4,956	-
Puerto Rico Solid Waste Authority	1.25%–5.75%	2031	10,689	-	-	10,689	-
Total Commonwealth appropriation bonds — component units			$834,630	$ -	$5,381	$829,249	$8,615

Debt service requirements on component units' appropriation bonds payable with fixed maturities at June 30, 2010 were as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2011	$ 8,615	$ 45,307	$ 53,922
2012	8,985	45,904	54,889
2013	-	34,372	34,372
2014	16,943	34,898	51,841
2015	17,338	34,304	51,642
2016–2020	110,777	154,175	264,952
2021–2025	127,350	123,960	251,310
2026–2030	383,904	78,881	462,785
2031–2035	170,346	4,318	174,664
Premium, net	37,723	-	37,723
Deferred loss, net	(52,732)	-	(52,732)
Total	$ 829,249	$ 556,119	$ 1,385,368

Bonds payable outstanding at June 30, 2010 are as follows (expressed in thousands):

Component Unit	Interest Rates	Maturity Through	Balance at June 30, 2009	Additions	Reductions	Balance at June 30, 2010	Amount Due Within One Year
Government Development Bank for Puerto Rico	2.6%-6.5%	2039	$ 959,133	$ 259,650	$ 244,334	$ 974,449	$ 67,605
Puerto Rico Infrastructure Financing Authority	Variable	2046	3,034,250	-	36,189	2,998,061	1,038,860
University of Puerto Rico	3%-5.75%	2036	698,039	2,341	23,915	676,465	29,337
Puerto Rico Municipal Finance Authority	3.70%–6.00%	2030	1,295,050	-	97,146	1,197,904	90,200
Puerto Rico Ports Authority	5.00%–7.30%	2028	54,655	46,556	58,545	42,666	-
Puerto Rico Aqueduct and Sewer Authority	4.25%-6.15%	2050	1,890,234	23,645	4,449	1,909,430	2,992
Puerto Rico Highways and Transportation Authority	2.25%–6.50%	2046	7,033,431	5,462	521,154	6,517,739	120,095
Puerto Rico Industrial Development Company	5.10%–6.75%	2028	265,638	377	17,050	248,965	11,875
Puerto Rico Convention Center District Authority	4.00%–5.00%	2036	472,909	-	6,949	465,960	8,640
Puerto Rico Electric Power Authority	3.00%–7.00%	2035	6,008,385	2,573,961	1,087,024	7,495,322	172,278
Total bonds payable-component units			$21,711,724	$2,911,992	$2,096,755	$22,526,961	$1,541,882

Debt service requirements on component units' bonds payable with fixed maturities at June 30, 2010 were as follows (expressed in thousands):

Year Ending June 30,	Principal	Interest	Total
2011	$ 1,541,882	$ 1,061,326	$ 2,603,208
2012	558,868	1,009,657	1,568,525
2013	615,735	987,829	1,603,564
2014	626,290	958,966	1,585,256
2015	942,138	996,563	1,938,701
2016–2020	2,637,742	3,120,298	5,758,040
2021–2025	3,706,347	3,470,716	7,177,063
2026–2030	3,923,226	2,465,655	6,388,881
2031–2035	2,881,197	1,745,938	4,627,135
2036–2040	3,258,737	1,068,979	4,327,716
2041–2045	1,772,935	405,925	2,178,860
2046–2050	855,083	80,522	935,605
Premium, net	249,448	-	249,448
Unacreted discount	(691,783)	-	(691,783)
Deferred loss	(350,884)	-	(350,884)
Total	$22,526,961	$17,372,374	$39,899,335

The table that follows represents debt service payments on certain component units' variable-rate bonds and the net payments on associated hedging derivative instruments as of June 30, 2010. Although interest rates on variable rate debt and the current reference rates of hedging derivative instruments change over time, the calculations included in the table below are based on the assumption that the variable rate and the current reference rates of hedging derivative instruments on June 30, 2010 will remain the same for their term.

Year Ending June 30,	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Hedging Derivative Instruments, Net	Total
2011	$ -	$ 9,401	$ 34,603	$ 44,004
2012	-	9,401	34,598	43,999
2013	-	9,401	34,608	44,009
2014	-	9,401	34,603	44,004
2015	-	9,401	34,603	44,004
2016-2020	87,670	44,632	170,236	302,538
2021-2025	107,235	38,598	151,649	297,482
2026-2030	402,085	30,111	119,024	551,220
2031-2035	72,800	14,752	68,250	155,802
2036-2040	-	14,101	65,777	79,878
2041-2045	155,620	9,871	28,667	194,158
2046-2050	233,440	426	374	234,240
Total	$ 1,058,850	$ 199,496	$ 776,992	$ 2,035,338

Several component units have defeased certain revenue bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old debts. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the statement of net assets (deficit). As of June 30, 2010, the following bonds are considered defeased (in million):

	Amount Outstanding
Puerto Rico Electric Power Authority	$ 4,079
Puerto Rico Highways and Transportation Authority	2,527
Puerto Rico Municipal Finance Agency	243
Total	$ 6,849

16. GUARANTEED AND APPROPRIATION DEBT

(a) Guaranteed Debt

The Commonwealth may provide guarantees for the repayment of certain borrowings of component units to carry out designated projects. At June 30, 2010, the following component unit debts are guaranteed by the Commonwealth (expressed in thousands):

	Maximum Guarantee	Outstanding Balance
Blended component unit —		
Public Buildings Authority (1)	$ 3,325,000	$ 3,180,587
Discretely presented component units:		
Government Development Bank for Puerto Rico	267,000	267,000
Puerto Rico Aqueduct and Sewer Authority	972,627	972,627
Port of the Americas Authority	250,000	204,713
Total	$ 4,814,627	$ 4,624,927

(1) Act No. 95 of July 26, 2010 amended Article 6(a) of Act No. 56 of June 19, 1958 to increase the Commonwealth's maximum guarantee over the Public Buildings Authority's borrowings from $3,325 million to $4,325 million.

The Commonwealth has guaranteed the payments of rentals of its departments, agencies, and component units to PBA, a blended component unit, under various lease agreements executed pursuant to the law that created PBA. Such rental payments include the amounts required by PBA for the payment of principal and interest on the guaranteed debt as authorized by law. The rental commitment to cover principal and interest on the guaranteed debt (excluding premiums and deferred refunding losses) as of June 30, 2010 and for the next five years and thereafter follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2011	$ 84,850	$ 167,323	$ 252,173
2012	81,002	163,671	244,673
2013	78,580	159,823	238,403
2014	74,135	155,261	229,396
2015	77,920	151,199	229,119
2016–2020	392,130	683,674	1,075,804
2021–2025	408,835	565,790	974,625
2026–2030	610,395	424,207	1,034,602
2031–2035	787,352	240,604	1,027,956
2036–2039	559,190	50,975	610,165
	3,154,389	$ 2,762,527	$ 5,916,916
Add (deduct) accreted discount	26,198		
	$ 3,180,587		

Rental income of PBA funds amounted to approximately $332 million during the year ended June 30, 2010, of which $153 million was used to cover debt service obligations.

Act No. 45 of July 28, 1994 states that the Commonwealth guarantees the payment of principal and interest of all outstanding bonds at the date the law was enacted and of all future bond issues to refinance those outstanding bonds of PRASA. Act No. 140 of August 3, 2000 amended Act No. 45 to extend the Commonwealth guarantee to include the principal and interest payments of the Rural Development Serial Bonds and the loans under the State Revolving Fund Program (SRFP) outstanding at the effective date of Act No. 140, and of all future bonds and SRFP loans that may be issued through June 30, 2005. Act No. 386 of September 21, 2004 extended the Commonwealth guarantee to June 30, 2010. Act. No. 75 of July 12, 2010 amended section 1 of Act No. 45 of July 28, 1994 to extend the Commonwealth guarantee over the Rural Development and SRFP's borrowings to June 30, 2015.

On March 18, 2008, PRASA issued approximately $284.8 million of Revenue Refunding Bonds, Series A and B (the "2008 Revenue Refunding Bonds"), (guaranteed by the Commonwealth) to refund PRASA's outstanding Revenue Refunding Bonds, Series 1995 (guaranteed by the Commonwealth) in the amount of approximately $262.8 million. The 2008 Revenue Refunding Bonds bear interest at rates from 5.80% to 6.10% per annum with maturity dates ranging from July 1, 2021 to July 1, 2034. The outstanding balance of the Rural Development Serial Bonds, SRFP and 2008 Revenue Refunding Bonds loans at June 30, 2010 amounted to $312.1 million, $375.8 million and $284.8 million, respectively.

Adjustable Refunding Bonds — The Commonwealth guarantees the Adjustable Refunding Bonds, Series 1985, issued by GDB, a discretely presented component unit. The outstanding balance of these bonds amounted to $267 million at June 30, 2010. On August 1, 2008, GDB repurchased the $267 million outstanding of its adjustable refunding bond as a result of significant increases in the interest rate of these auction rate bonds. On December 30, 2009, GDB remarketed and reissued these bonds at a fixed rate of 4.75%, maturing on December 1, 2015. These notes are subject to redemption at the option of GDB on or after June 1, 2013 at a redemption price of 101% through May 31, 2014 and 100% after June 1, 2014.

The Puerto Rico Housing Bank, a former component unit of the Commonwealth, which merged with GDB during 2002, insured mortgages granted to low and moderate income families through its mortgage loan insurance program. The Commonwealth guarantees up to $75 million of such mortgage loans. As of June 30, 2010, the mortgage loan insurance program was insuring loans aggregating $621.0 million. Currently, the Commonwealth has not been called to make any direct payments pursuant to these guarantees.

At various times during fiscal years ended 2005 and 2006, the Port of the Americas Authority entered into bond purchase agreements with GDB, whereby GDB agreed to disburse to the Port of the Americas Authority from time to time certain bond principal advances up to a maximum aggregate principal amount of $70 million (Port of the Americas Authority 2005 Series A Bond), $40 million (Port of the Americas Authority 2005 Series B Bond), and $140 million (Port of the Americas Authority 2005 Series C Bond). The proceeds of the bonds are to be used to finance the cost of development and construction of the Port of the Americas. The aggregate unpaid principal balance of all outstanding bond principal advances shall be payable in full on January 1, 2015 and January 15, 2015. The principal amount may be paid with any of the following: (i) a long-term bond issuance once the projects are completed; (ii) other revenue of the Port of the Americas Authority; (iii) or legislative appropriations as established in Act No. 409 of September 22, 2004 (Act No. 409). Principal and interests payments are guaranteed by the Commonwealth by Act No. 409. As of June 30, 2010, the principal outstanding under those bond purchase agreements amounted to $204.7 million.

(b) Appropriation Debt

At June 30, 2010, the outstanding balances of debt payable by Commonwealth appropriations, as described in note 15(d), which are included in the individual financial statements of the following discretely presented component units, are as follows (expressed in thousands):

Puerto Rico Public Finance Corporation (a blended component unit of GDB)	$ 1,626,899
Puerto Rico Aqueduct and Sewer Authority	685,950
Special Communities Perpetual Trust	376,095
Puerto Rico Convention Center District Authority	151,076
Agricultural Services and Development Administration	103,518
Puerto Rico Solid Waste Authority	68,085
Puerto Rico Industrial Development Company	43,403
Puerto Rico Housing Finance Authority (a blended component unit of GDB)	13,921
Company for the Integral Development of the “Península de Cantera”	10,779
National Parks Company of Puerto Rico	6,107
Government Development Bank for Puerto Rico (GDB)	4,811
Puerto Rico Infrastructure Financing Authority	4,956
Institute of Puerto Rican Culture	144
Total	$ 3,095,744

These balances are reported in the statement of net assets (deficit) as Commonwealth appropriation bonds payable and notes payable.

17. CONDUIT DEBT OBLIGATIONS AND NO COMMITMENT DEBT

From time to time, certain of the Commonwealth's component units issue revenue bonds to provide financial assistance to private sector entities for the acquisition and construction of transportation, environmental, industrial, tourism, educational, and commercial facilities, deemed to be in the public interest and that are expected to provide benefits to Puerto Rico. These bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities is retained by the private sector entity served by the bond issuance. Neither the Commonwealth nor any political subdivision or component unit thereof is obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the basic financial statements of the issuing entities. As of June 30, 2010, conduit debt obligations consisted of the following bonds issued by component units (expressed in thousands):

Issuing Entity	Issued Since Inception to Date	Amount Outstanding
Discretely presented component units:		
Puerto Rico Ports Authority	$ 155,410	$ 46,326
Puerto Rico Highways and Transportation Authority	270,000	158,000
Government Development Bank for Puerto Rico	1,147,475	816,270
Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority	5,997,000	1,328,000
Total	$7,569,885	$2,348,596

(a) Puerto Rico Ports Authority (PRPA)

PRPA issued $39,810,000 in Special Facilities Revenue Bonds under the provisions of a trust agreement dated June 1, 1993, and $115,600,000 in Special Facility Revenue Bonds, under the provisions of a trust agreement dated May 1, 1996, between PRPA and a private bank. The proceeds from the sale of the bonds were used to finance the construction, acquisition of equipment, and improvement of certain facilities at Luis Munoz Marin International Airport, for the benefit of a major private airline. The property is owned by PRPA and leased to the private company. These bonds are limited obligations of PRPA, and are payable solely from and secured by a pledge of certain payments made under the Special Facilities Agreement with the private company and certain other moneys. Neither the credit of the Commonwealth nor that any of its political subdivisions is pledged for the repayment of these bonds. In addition, the bonds are unconditionally guaranteed by the private company's parent company. Pursuant to the agreements between PRPA and the private company, the private company has agreed to pay amounts sufficient to pay the principal of and premium, if any, and interest on the bonds. The bonds are not collateralized by any property, but are payable solely from certain pledged payments by the private company under the agreement or by the private company's parent company under its unconditional guarantee.

(b) Puerto Rico Highways and Transportation Authority (PRHTA)

In March 1992, PRHTA issued Special Facility Revenue Bonds, 1992 Series A, B and C for approximately $117 million for the construction of a toll bridge. The proceeds from the sale of these bonds were transferred by PRHTA to a private entity, Autopistas de Puerto Rico ("Autopistas"), pursuant to a signed concession agreement for the design, construction, operation and maintenance of the bridge. On October 30, 2003, PRHTA issued Special Facility Revenue Refunding Bonds, 2004 Series A, amounting to approximately $153 million for the purpose of refunding PRHTA's Special Facility Revenue Bonds, 1992 Series A, B, and C, which were issued to fund the construction of the bridge, and to pay the cost of issuance of the bonds. The proceeds from the sale of the bonds were transferred by PRHTA to Autopistas pursuant to a new loan agreement by and between Autopistas and PRHTA. The bonds shall be paid from the proceeds received by Autopistas from the operation of the bridge.

Under certain circumstances, the concession agreement may be terminated and PRHTA is then obligated to assume the Autopista's entire obligation to pay principal of, and interest on, the bonds outstanding, which pursuant to the signed agreement, will be paid from the net revenues of the use and operation of the bridge. PRHTA does not currently expect the concession agreement to terminate. The outstanding bonds (including accrued interest) at June 30, 2010 amounted to approximately $158 million.

(c) GDB

In December 2003, GDB, through its Housing Finance Authority, issued $663 million in Capital Fund Program Bonds Series 2003 to lend the proceeds to the Public Housing Administration in its financing of improvements to various public low and moderate income housing projects. These bonds are limited obligations of the Housing Finance Authority, which will be paid solely from an annual allocation of public housing capital funds when received from the U.S. Department of Housing and Urban Development and other funds available under the bond indenture; Accordingly, these bonds are considered no commitment debt and are excluded, along with the related assets held in trust, from the accompanying basic financial statements. The outstanding balance of these bonds amounted to $360 million at June 30, 2010.

On August 1, 2008, the Housing Finance Authority issued the Capital Fund Modernization Program Subordinate Bonds amounting to $384,475,000 and the Housing Revenue Bonds amounting to $100,000,000. The proceeds from the issuance were mainly used to finance a loan to a limited liability company and pay the costs of issuance. The $384,475,000 bonds are limited obligations of the Authority, payable primarily by a pledge and assignment of federal housing assistance payments made available by the U.S. Department of Housing and Urban Development, with an outstanding balance of $356,270,000 at June 30, 2010. The $100,000,000 bonds are also limited obligations of the Housing Finance Authority, payable from amounts deposited in escrow accounts with a trustee and the proceeds of a loan to be made by the Housing Finance Authority to the limited liability company using moneys received as a grant from the Department of Housing of Puerto Rico. Payment of principal of the Housing Revenue Bonds is also secured by an irrevocable standby letter of credit issued by GDB. These bonds are considered no-commitment debt and, accordingly, are excluded along with the related assets held in trust, from the Housing Finance Authority's financial statements.

(d) AFICA

AFICA's revenue bonds are special and limited obligations of AFICA and, except to the extent payable from bond proceeds and investments thereof, will be payable solely from and secured by a pledge and assignment of the amounts payable under the loan agreements between AFICA and the borrowers. Furthermore, payment of principal and interest on the revenue bonds is unconditionally guaranteed by the borrowers, their parent companies, or letters of credit generally issued by major U.S. banks or U.S. branches of international banks.

The revenue bonds are considered conduit debt and do not constitute a debt or a pledge of the good faith and credit of AFICA or the Commonwealth or any political subdivision thereof.

In connection with the issuance of revenue bonds, AFICA enters into trust agreements, whereby AFICA assigns and pledges to the trustees, for the benefit of the holders of the revenue bonds, (1) all amounts receivable by AFICA in repayment of the amounts due under the loan agreements; (2) any rights, title, and interest of AFICA in the proceeds derived from the issuance of the revenue bonds and of any securities in which moneys in any fund or account created by the trust agreements or loan agreements are invested and the proceeds derived therefrom; and (3) AFICA's rights, title, and interest in and to the loan agreements, subject to AFICA's retention of certain rights, including the right to collect moneys payable to AFICA, which are not received with respect to repayment of the loans.

Since inception and up to June 30, 2010, AFICA has issued revenue bonds aggregating to $5,997 million, $1,328 of which was outstanding as of June 30, 2010. Of the revenue bonds outstanding at June 30, 2010, $755 million represent industrial and commercial revenue bonds; $106 million, tourism related revenue bonds; $141 million, hospital revenue bonds; and $326 million, educational revenue bonds. Pursuant to the loan agreements covering the issuance of these bonds, corporations and partnerships operating in Puerto Rico borrowed the proceeds from the bond issuances by AFICA.

18. RISK MANAGEMENT

The following describes the risk management programs separately administered by certain discretely presented component units:

(a) GBD

During fiscal year 2010, as part of its risk management activities and as a condition to provide financing support to certain public corporations, GDB has entered into fiscal oversight agreements with such public corporations. The agreements require the public corporations, among other, to implement a comprehensive expense reduction program, including certain fiscal oversight controls, subject to laws and existing agreements of the public corporations, design to minimize future tariff increases to households and the private sector, and to protect and improve the credit rating of the public corporations, so that the public corporations may obtain adequate financing to fund its capital expenditure requirements and to operate its infrastructure in an efficient and reliable manner and in compliance with applicable laws and regulations. GDB's agreement to provide current financing and any future financing is expressly conditioned upon the public corporations' compliance with the covenants established in the fiscal oversight agreement and GDB's right to monitor and enforce such compliance. These agreements will be in effect until the public corporations have regained a level of financial stability and are able to secure long-term financing that will result in the continued stability of the public corporations' operations and financial condition.

Also, as part of its role of providing financing to the Commonwealth and its instrumentalities to further the economic development of Puerto Rico, and as part of its risk management activities, GDB is renegotiating and/or restructuring payment terms of the loans to certain governmental entities. Some of the renegotiations/restructurings extend the period for principal repayment but provide for repayment of the contractual interest in accordance with the original terms.

Other Risks Related to Mortgage and Loan Servicing and Insurance Activities — Certain loan portfolios of the Housing Finance Authority are administered by private servicers who are required to maintain an error and omissions insurance policy. The Housing Finance Authority has a program to manage the risk of loss on its mortgage loan lending and insurance activities.

(b) UPR

UPR is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Through January 1993, UPR was insured under claims-made insurance policies with respect to medical malpractice risks for $250,000 per occurrence up to an annual aggregate of $500,000. Subsequent to such date, UPR was unable to obtain insurance at a cost it considered to be economically justifiable; consequently, UPR is now self-insured for such risks. Under Act No. 98 of August 24, 1994, the responsibility of UPR is limited to a maximum amount of $75,000 per person, or $150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Self-insured risk liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend upon such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Changes in the claims liability amount in fiscal years 2010 and 2009 were as follows (expressed in thousands):

	2010	2009
Claims payable — July 1	$ 27,354	$ 19,124
Incurred claims and changes in estimates	(2,370)	9,970
Payments for claims and adjustments expenses	(1,559)	(1,739)
Claims payable — June 30	$ 23,425	$ 27,355

UPR continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(c) PREPA

PREPA is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. PREPA obtains insurance policies covering all-risk property (excluding transmission and distribution lines), boiler and machinery, and public liability. The all-risk property and boiler and machinery policies have a combined coverage of $750 million per occurrence. The policies' self-retention in case of earthquake and windstorm losses is $25 million and $2 million for all other covered risks. The public general liability policy covers property damage and bodily injury to third parties with a $75 million aggregate limit in excess of the self-retention limit of $1 million per occurrence.

PREPA has a cost plus health insurance program covering substantially all employees. PREPA contracted an administrator for the processing, approval, and payment of claims plus an administrative fee. The accrual for employees' health plan includes the liability for claims processed and an estimate for claims incurred but not reported.

Changes in the balances of the health insurance program and other self insurance risks during fiscal years 2010 and 2009 were as follows (expressed in thousands):

	2010	2009
Claims payable — July 1	$ 5,552	$ 7,154
Incurred claims	114,179	136,348
Claim payments	(114,134)	(137,950)
Claims payable — June 30	$ 5,597	$ 5,552

Claims payable are a component of accounts payable and accrued liabilities in the accompanying statement of net assets (deficit).

(d) SIFC

SIFC provides workers' compensation insurance to public and private employees. This insurance covers workers against injuries, disability, or death because of work or employment related accidents, or because illness is suffered as a consequence of their employment. SIFC establishes liabilities for incurred but unpaid benefits and benefit adjustment expenses based on the ultimate cost of settling the benefits. The liability includes estimates for cases reported that have not been adjudged and cases incurred but not reported. The following table provides a reconciliation of the beginning and ending liability for incurred but unpaid benefits and benefit adjustment expenses for the two most recent fiscal years (expressed in thousands):

	2010	2009
Liability for incurred but unpaid benefits and benefit adjustment expenses at July 1	$ 738,475	$ 702,355
Total incurred benefits	556,650	533,820
Total benefit payments	(516,882)	(497,700)
Liability for incurred but unpaid benefits and benefit adjustment expenses at June 30	$ 778,243	$ 738,475

The liability for incurred but unpaid benefits and benefit adjustment expenses is reported as liabilities for automobile accident insurance and workmen compensation claims in the accompanying statement of net assets (deficit).

The liability for incurred but unpaid benefits and benefit adjustment expenses is based on historical claims experience data, assumptions and projections as to future events, including claims frequency, severity, persistency, and inflationary trends determined by an independent actuarial study. This liability has been discounted at 3.80% in 2010 and 3.25% in 2009. SIFC's management believes that discounting such liability results in a better matching of costs and revenues since compensation benefits have a long payment cycle. The assumptions used in estimating and establishing the liability are reviewed annually based on current circumstances and trends.

SIFC's management believes that the liability for incurred but unpaid benefits and benefit adjustment expenses, actuarially determined at June 30, 2010, is a reasonable estimate of the ultimate net cost of settling benefits and benefit expenses incurred. Because actual benefit costs depend upon such factors as duration of worker disability, medical cost trends, occupational disease, inflation, and other social and economic factors, the process used in computing the ultimate cost of settling benefits and expenses for administering benefits is necessarily based on estimates. The amount ultimately paid may be above or below such estimates. Adjustments resulting from changes in estimates of these liabilities are charged or credited to operations in the period in which they occur.

(e) AACA

AACA operates a system of compulsory insurance for vehicles licensed to be used on public roads and highways in Puerto Rico. This insurance covers death and bodily injuries caused by automobile accidents. The annual premium is $35 per motor vehicle.

The following table provides a reconciliation of the beginning and ending liability for the future benefits for the two most recent fiscal years (expressed in thousands):

	2010	2009
Liability for incurred but unpaid benefits and benefit adjustment expenses at beginning of year	$ 166,352	$ 115,085
Total incurred benefits	74,090	127,552
Total benefit payments	(74,515)	(76,285)
Liability for incurred but unpaid benefits and benefit adjustment expenses at end of year	$ 165,927	$ 166,352

The liability for future benefits is reported as liability for automobile accident insurance and workmen compensation claims in the accompanying statement of net assets (deficit). The liability covers the estimated cost of all future benefits related to claims incurred but not reported during the year. Future benefits include death and funeral, disability and accident and health benefits. AACA has recorded this liability, including administrative expenses for claim processing, based on the results of an actuarial report prepared by an independent actuary.

Changes in the ultimate liabilities for benefit payments may be required as information develops, which varies from experience, provides additional data, or, in some cases, augments data, which previously were not considered sufficient for use in determining the claim liabilities.

(f) PRIFA

PRIFA is responsible for assuring that its property is properly insured. Annually, PRIFA compiles the information of all property owned and its respective market value and purchases its property and casualty insurance policies. Insurance coverage for fiscal year 2010 remained similar to those of prior years. For the last three years, insurance settlements have not exceeded the amount of coverage.

(g) PRASA

PRASA has acquired commercial insurance to mitigate its exposure to certain losses involving real and personal property (including windstorm, flood and earthquake damages) and comprehensive general and automobile claims. Each commercial insurance policy maintained by PRASA contains specific policy limits and deductibles. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

19. COMMITMENTS AND CONTINGENCIES

Primary Government — The Commonwealth is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Act No. 104 of June 25, 1955, as amended, persons are authorized to sue the Commonwealth only for causes of actions set forth in said Act to a maximum amount of $75,000 or $150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Under certain circumstances, as provided in Act No. 9 of November 26, 1975, as amended, the Commonwealth may provide its officers and employees with legal representation, as well as assume the payment of any judgment that may be entered against them. There is no limitation on the payment of such judgments.

With respect to pending and threatened litigation, excluding the litigation mentioned in the following paragraphs, the Commonwealth reported approximately $421 million as an amount to cover for awarded and anticipated unfavorable judgments at June 30, 2010. This amount was included as other long-term liabilities in the accompanying statement of net assets (deficit), and represents the amount estimated as probable liability or a liability with a fixed or expected due date that will require future available financial resources for this payment. The amounts claimed exceed $7 billion; however, the ultimate liability cannot be presently determined. It is the opinion of management that the claims are excessive and exaggerated. Management believes that the ultimate liability in excess of amounts provided, if any, would not be significant.

The Commonwealth is a defendant in two parallel lawsuits, one filed in the state court and the other at the federal court. The plaintiffs are various primary healthcare centers seeking to recover from the Commonwealth $800 million of Medicaid funds retained by the Department of Health of the Commonwealth since 1997. In February 2005, United States Court of Appeals for the First Circuit determined that the Commonwealth must return any funds withheld because of noncompliance with a federal law. As of June 30, 2010, the Commonwealth accrued $280 million for this legal contingency.

The Commonwealth is a defendant in a class action presented by parents of special education students in the areas of education and healthcare. In October 2006, the State Court of Appeals decided in favor of the parents' request to include damage claims pursuant to the same class action case although not as a remedy in the class action per se. The court now may award damages to the members of the class action and to do so it may look at the claims by dividing them into groups or consider each case individually. This will require that the parents prove the damages suffered. The Commonwealth plans to defend vigorously each individual case. As of June 30, 2010, the Commonwealth accrued $600 million for this legal contingency.

The Commonwealth receives financial assistance from the federal government in the form of grants and entitlements. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal laws and regulations, including the expenditure of resources for eligible purposes. Substantially, all grants are subject to audit under Circular A-133 of the Office of Management and Budget of the United States of America (OMB Circular A-133), all of which are performed at the individual department or agency level. Disallowance as a result of these audits may become liabilities of the Commonwealth. At June 30, 2010, based on an evaluation of pending federal disallowances, the Commonwealth has recorded approximately $103 million as other long-term liabilities in the accompanying statement of net assets (deficit). Expenditures that are still subject to audit could be disallowed but management believes any such future disallowances would not be material to the basic financial statements.

Construction commitments at June 30, 2010, entered by PBA, amounted to approximately $72.7 million. In addition, the Commonwealth's construction commitments for public housing facilities amounted to approximately $322 million at June 30, 2010.

On November 23, 1998, a global settlement agreement (the "Global Agreement") was entered into by and between certain tobacco companies and certain states, territories, and other jurisdictions of the United States of America, including the Commonwealth. The agreement calls for annual payments through the year 2025, which will vary due to inflationary and volume adjustments. After 2025, the tobacco companies are to continue making contributions in perpetuity. Pursuant to Act No. 173 of July 30, 1999, which created the Children's Trust (a blended component unit), the Commonwealth assigned and transferred to the Trust all payments that the Commonwealth is entitled to receive under the Global Agreement. Payments received under the agreement and recognized as revenue during the year ended June 30, 2010 amounted to approximately $76 million.

Discretely Presented Component Units — in the normal course of their operations, various component units are subject to guarantees, actions brought by third parties seeking damages or entering into commitments. Such actions are disclosed in the separately issued reports of the component units, some of which are summarized below:

(a) GDB

On August 18, 2002, the Legislature approved Law No. 198, which creates the Cooperative Development Investment Fund. The purpose of this fund is to promote the development of cooperative entities. This fund will be capitalized through contributions to be provided by GDB up to $25 million to be matched by cooperative entities. As of June 30, 2010, GDB has contributed $16.2 million to the Cooperative Development Investment Fund, $624,000 of which were contributed during the year ended June 30, 2010.

The Development Fund has entered into an agreement with the Economic Development Bank for Puerto Rico (EDB) whereby the Development Fund would guarantee a portion of loans granted by EDB under a government program named "The Key for Your Business" (the "Program"). Under the agreement, the Development Fund would assign $10 million of its capital for the Program. The Development Fund guarantees one-third of the outstanding principal balance of each loan plus accrued interest and certain other charges. On August 28, 2008, the Development Fund and EDB amended the agreement to increase from $10 million to $15 million the Development Fund's capital designated for the Program. The Development Fund charges one percent of the loan amount as guarantee fee and no loan can exceed $50,000. At June 30, 2010, outstanding guarantees amounted to approximately $8 million, and the allowance for losses on guarantees amounted to approximately $2.5 million.

The Housing Finance Authority acts as a servicer for a number of mortgage loans owned by other investors. The servicing is generally subcontracted to a third party. As of June 30, 2010, the principal balance of the mortgage loans serviced for others is approximately as follows (expressed in thousands):

R-G Mortgage, Inc.	$ 1,496
Popular Mortgage, Inc.	85
Office for the Administration of the Assets of the Urban Renovation and Housing Corporation or its successor without guaranteed mortgage loan payments	44
Total	$ 1,625

GDB and certain of its component units are defendants in several lawsuits arising out of the normal course of business. Management, based on advice of legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings will not have a material adverse effect on the financial position and results of operations of GDB or its component units.

(b) PRHTA

On December 24, 2003, Siemens Transportation Partnership Puerto Rico S.E. ("STT") and others filed legal claims against PRHTA in the amounts of approximately $50 million for damages, amounts withheld, acceleration of work and other causes of action in connection with the construction of the Urban Train Project. On November 24, 2004, PRHTA filed a counter claim against STT for liquidating damages as stipulated in the contract in the amount of $100 million. PRHTA amended its counter claim on November 17, 2008 to include other credits against STT.

Therefore, the total claimed damages were increased to $233 million. Under the contractual obligation between STT and PRHTA, STT was responsible to defend, indemnify, and hold harmless PRHTA from claims asserted by third parties against the PRHTA for the acts and omissions by STT, or any of its subcontractors, in the project. Presently, some Alignment Sections Contractor (ASC's) has asserted claims against PRHTA for damages suffered in part by STT actions or omissions amounting to $150 million, approximately. On September 22, 2005, PRHTA filed a third party complaint for breach of contract, liquidated damages and others against various ASC's in the amount of $25 million. On April 20, 2007, the Administrative Judge designated this case as a complex litigation and remitted it to the Chief Justice of the Supreme Court who has to assign a presiding judge for the case. On August 28, 2008, STT amended its complaint to adjust the amount claimed to $114 million. On April 21, 2009, in accordance to the calendar approved by the Court through its order dated May 6, 2009, the PRHTA filed and amended third party complaint in which, aside from amending its allegation to the already appearing parties, the guarantors and sureties, and assurance companies were brought to the case. In June 2009, a committee was assigned to evaluate the STT claims, which entailed a period of negotiations between STT and PRHTA. As a result of said negotiations, on May 28, 2010, PRHTA settled all claims with Siemens. During July 2010, PRHTA settled these legal cases with STT and Necso and issued a new line of credit of $63 million to pay the total amount for these settlements and other legal claims for approximately $62 million.

On December 22, 2009, Chartis Insurance Company (Chartis) filed a complaint against STT and PRHTA, requesting a Declaratory Judgment in its favor to support its position to deny cover to Siemens request for coverage for all costs associated to its defend and subsequent settlement reached in case KAC2003-8807 (804). The PRHTA's was included in case merely as party with interest, but no monetary claim was asserted against it.

The only pending claims are those between the PRHTA, ICA (Bayamón Alignment Section) and KKZ (Rio Piedras Alignment Section). Notwithstanding, the Court stayed said proceedings in light of ongoing negotiations between PRHTA, ICA and KKZ. According to current negotiation status, the PRHTA expects to have executed agreements with ICA and KKZ by the end of April 2011, which foresee an offset between retained funds to said contractors and the execution of pending corrective works at their respective Alignment Sections. Due to current negotiations with ICA and KKZ and the staying on the judicial proceedings, the PRHTA exposure in terms of potential loss or gain for these claims is none.

Redondo Construction (RC) filed legal claims against the PRHTA in the amount of approximately $38.1 million for damages, additional compensation, unpaid claims, prejudgment interests and other causes of action related to various construction contracts. On August 31, 2009, the Bankruptcy Court entered judgment in favor of RC for approximately $22.2 million plus prejudgment interest at 6% to 6.5%. The PRHTA filed several post judgment motions to amend judgment and to oppose prejudgment interest. During December 2009, the PRHTA was served with another claim from RC for economic damages of approximately $40 million.

PRHTA is a defendant or co-defendant in various lawsuits for alleged damages in cases principally related to construction projects. These are generally either fully or partially covered by insurance. The contactors are required, under the terms of the construction agreements to carry adequate public liability insurance and to hold harmless the PRHTA from lawsuits brought on account of damages relating to the construction of the projects.

As of June 30, 2010, PRHTA, based on legal advice, has recorded a provision of approximately $121.9 million, of which $25 million has been classified as current, to cover probable losses on those claims not fully covered by insurance. In the opinion of legal counsel, any liability in excess of

the insurance coverage and/or the recorded provisions that may arise for such claims will not be significant to the PRHTA's financial position or results of operations.

(c) PRASA

PRASA is a defendant on various lawsuits presented by customers alleging that PRASA has over billed them due to the methodology used to estimate consumption. The plaintiffs requested a certification of the suit as a class action and seek recovery damages in the amount of approximately $793 million and an injunction enjoining PRASA from continuing to bill using the current methodology. PRASA's potential exposure from these lawsuits cannot be presently determined and, as such, no liability is being reported on the accompanying basic financial statements.

PRASA is the defendant or codefendant in various other lawsuits. The ultimate outcome of the lawsuits cannot presently be determined. However, management, based on the advice of legal counsels, is of the opinion that these lawsuits will not have a material impact on the basic financial statements.

(d) PREPA

PREPA is a defendant or codefendant in several lawsuits incidental to its business, some involving substantial amounts. In those instances that management and legal counsel believe that the outcome of the litigation will be unfavorable to PREPA, a provision has been made to cover the estimated liability. PREPA's management, based on discussions with legal counsel believes that the additional liability, if any, resulting from the ultimate resolution of these matters will not have a material effect on PREPA's financial position or results of operations.

On May 18, 2000, Abengoa, Puerto Rico, S.E. (Abengoa), PREPA's contractor for the repowering of San Juan steam plant units 5 and 6, unilaterally declared a termination of the contract with PREPA and filed a complaint for breach of contract. PREPA has moved for time to answer the complaint and has filed a counterclaim for the cost of the project and for all damages caused to PREPA by the alleged illegal contract termination. PREPA believes that the actions by the contractor will not materially affect the ability of PREPA to provide service nor there will be a material difference in the quality of service provided by PREPA. In June 2004, the Office of the Comptroller of the Commonwealth of Puerto Rico (the "Comptroller") issued a report stating that PREPA overcharged its clients by approximately $49.8 million, and should reimburse this amount to such clients. After this report was made public, two lawsuits were filed by clients of PREPA against PREPA demanding the reimbursement of such alleged overcharges. PREPA's position is that the Comptroller incorrectly based his conclusion on data that is not relevant to the calculation of PREPA's rates, and that PREPA's rates were properly established in the year 2000 in accordance with applicable laws and regulations. In particular, PREPA notes that its rates properly take into consideration the cost of the fuel used by PREPA's generating facilities and the cost of the electricity purchased from the two co-generating facilities that sell power to PREPA.

In 2008, Power Technologies Corp. filed a suit against PREPA, alleging that PREPA had withdrawn from a contracting process for a new energy facility, in which Power Technologies was involved, without explanation or justification. Power Technologies seeks damages of $51.4 million. The case is currently in discovery stage.

(e) PRMeSA

PRMeSA has accounts receivable aggregating $24 million at June 30, 2010, from the Hospital of the Municipality of San Juan, related to medical services rendered. PRMeSA alleges that these amounts are related to services rendered during the period from June 30, 2005 to June 30, 2008.

PRMeSA filed at the Department of Justice of the Commonwealth and with the Commission for the Resolution of Controversies over Payments and Debts between Governmental Agencies, a claim demanding the resolution of this matter. On June 29, 2009, the Commission designated the OMB to serve as a mediator in this claim. As of June 30, 2010, no resolution or recommendation has been made by the OMB in connection with this controversy.

PRMeSA is a party in certain legal actions and claims related to medical malpractice arising in the ordinary conduct of its business. Although PRMeSA appears as a defendant in the claims, many of them involve medical personnel of the member institutions, and in effect, these claims are against said institutions. As a result of the deficiency as of June 30, 2010, of funds available in the Self-Insured Fund, any unfavorable outcome may have a significant effect on the financial condition of PRMeSA.

Based on a review of current facts and circumstances, management has provided for what is believed to be a reasonable estimate of the exposure to loss associated to litigation. PRMeSA has established an accrual reserve for claim losses in the amount of $7 million at June 30, 2010.

(f) PRIFA

At June 30, 2010, PRIFA is a defendant in various legal proceeding arising from its normal operations. Management, based on the advice of its legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings and legal actions in the aggregate will not have a material effect on the PRIFA's financial statements. However, management is of the opinion that they will reach settlements in certain cases. A liability to cover claims and other contingencies amounting to $7.9 million has been reflected as part of accounts payable and accrued expenses in the accompanying statement of net assets (deficit).

(g) PRHIA

PRHIA is codefendant in a case involving a claim for $14 million by a provider of information technology services. PRHIA's legal counsel believes that at this stage an estimate can be made as to the financial effect of $1,500,000 to the litigation and cannot offer any evaluation of the likelihood of a favorable or unfavorable outcome.

(h) SPECIAL COMMUNITIES PERPETUAL TRUST

The Special Communities Perpetual Trust (the "Trust") has financial assistance agreements with several municipalities of the Commonwealth to provide funding for the construction, improvement and rehabilitation of certain projects of the Special Communities. At June 30, 2010, the Trust's commitments with the municipalities amounted to approximately $116.7 million, from which a total of approximately $88.8 million had been disbursed.

The Trust is a defendant in numerous legal proceedings pertaining to matters incidental to the performance its normal operations. The Trust recorded approximately $10,060,000 to cover for awarded and anticipated unfavorable judgments at June 30, 2010. This amount represents the amount estimated as probable liability that will require future available financial resources for its

payment. The amounts claimed approximate $70 million; however, the ultimate liability cannot be presently determined. It is the opinion of management that the claims are excessive and exaggerated. Management, based on the advice of its legal counsel, believes that the ultimate liability in excess of amounts provided would likely not exceed $12.7 million.

Environmental Commitments and Contingencies

Primary Government

During 2009, the Commonwealth adopted GASB Statement No. 49, "*Accounting and Financial Reporting for Pollution Remediation Obligations*". This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear power plant decommissioning.

Once any of five specified obligating events occurs, a government is required to estimate the component of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. Obligating events include the following:

- The government is compelled to take pollution remediation action because of an imminent endangerment.
- The government violates a pollution prevention–related permit or license.
- The government is named, or evidence indicates that it will be named, by a regulator as a responsible party or potentially responsible party (PRP) for remediation, or as a government responsible for sharing costs.
- The government is named, or evidence indicates that it will be named, in a lawsuit to compel participation in pollution remediation.
- The government commences or legally obligates itself to commence pollution remediation.

As of June 30, 2010, the pollution remediation obligation recorded in the accompanying statement of net assets (deficit) amounted to approximately $7.5 million

Component Units

The following component units' operations include activities that are subject to state and federal environmental regulations:

- *PREPA* — Facilities and operations of PREPA are subject to regulations under numerous federal and Commonwealth environmental laws, including the Clean Air Act, Clean Water Act, Oil Pollution Act (OPA) Resource Conservation Recovery Act (RCRA), Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and Underground Storage Tanks, among others. In February 1992, the Environmental Protection Agency (EPA) conducted a multimedia inspection of PREPA's facilities and identified several alleged instances of noncompliance related to PREPA's air, water, and oil spill prevention control and countermeasures compliance programs.

PREPA and the EPA undertook negotiations to resolve the issues regarding the deficiencies observed during the inspection and to ensure future compliance with all applicable laws and regulations. As a result of the negotiations, PREPA and the EPA reached and agreement that resulted in a consent decree (the "Consent Decree") approved by the United States federal court in March 1999. Under the terms and conditions of the Consent Decree, PREPA paid a civil penalty of $1.5 million and implemented additional compliance projects amounting $4.5 million. In addition, the Consent Decree requires that PREPA improves and implements compliance programs and operations in order to assure compliance with environmental laws and regulations.

In 2004, the United States federal court approved a modification to the Consent Decree agreed by PREPA and the EPA under which PREPA reduced, in two steps, the sulfur content in the No. 6 fuel oil used in certain generating units of its Costa Sur and Aguirre power plants (to 0.75% or less by March 1, 2005 and to 0.5% or less by March 1, 2007), and used No. 6 fuel oil with sulfur content of not more than 0.5% through July 18, 2009 at its Palo Seco and San Juan power plants. Additionally, PREPA has completed a nitrogen oxide emissions reduction program and modified the optimal operating ranges for all its units under the Consent Decree. PREPA also paid a $300,000 civil fine and reserved $200,000 to fund certain supplemental environmental projects and programs under the Consent Decree.

Since September 2004, there has been no legal action in the United States federal court or any administrative proceeding against PREPA regarding the Consent Decree or its modification. The Consent Decree includes stipulated penalties for certain events of non compliance. Non compliance events must be disclosed to EPA in the corresponding report. Ordinarily, when a covered noncompliance event occurs, PREPA pays the stipulated penalty in advance in order to benefit from a 50% discount of the applicable stipulated penalty.

In 1997, as a result of an inspection carried out by EPA and the Puerto Rico Environmental Quality Board (EQB) at PREPA's Palo Seco Power Plant, the EPA issued an Administrative Order for the investigation and possible remediation of seven areas identified by the EPA at the Palo Seco Power Plant and the Palo Seco General warehouse. The Administrative Order required PREPA to carry out a Remedial Investigation/Feasibility study (RI/FS). The RI/FS required under the Order is designed to: (i) determine the nature and extent of contamination and any threat to the public health, welfare or environmental caused by any release or threatened released of hazardous substances, pollutants or contaminants at or from the site; and (ii) determine and evaluate alternatives for the remediation and control of the release or threatened release of hazardous substances, pollutants, or contaminants at or from the site. The RI/FS is still in progress. The RI was completed and a final report was submitted to EPA for evaluation. PREPA is waiting for EPA's evaluation.

The information gather under the RI reflected the presence of free product (Separate Phase Hydrocarbons) in several monitoring wells. The analysis of this product also reflected a low concentration of polychlorinated biphenyls (PCBs). PREPA and EPA entered in to an Administrative Order on Consent (CERCLA-02-2008-2022) requiring PREPA to complete a removal plan that consists of determining if the underground water has been impacted by the PCBs, the extension of the contamination and the implementation of a work plan for free product removal. Analytical data collected during this activity reflected that underground water has not been impacted by PCBs. Nevertheless, water/oil mix has been found in several monitoring wells (MWs). PCBs concentrations between 1.36 – 2.36 parts per million were detected in the oil found in 3 of the 7 MWs. Multiphase extraction (MPE) activities in the MWs where water/oil phases were found, has been performed on a weekly basis. MWs gauging readings are performed during these activities. MPE will end by December 2010. Collected data will be evaluated in order to determine further actions. It is EPA's interest that RI/FS be completed by September 2011.

The remaining costs to achieve compliance have been estimated at $500,000. The Order also establishes a Reimbursement of Costs condition in which PREPA agrees to reimburse EPA for all costs incurred by EPA in connection to the site. No bill has been received by PREPA, as of this date.

In 2002, PREPA received a "Special Notice Concerning Remedial Investigation/Feasibility Study for Soil" at the Vega Baja Solid Waste Disposal Superfund Site. The EPA has identified PREPA and other six entities as "potentially responsible parties", as defined by the CERCLA. In 2003, PREPA agreed to join the other potentially responsible parties in an Administrative Order on Consent (AOC) for an RI/FS, with the understanding that such agreement did not constitute an acceptance or responsibility. Under the AOC, PREPA committed up to $250,000 as its contribution to partially fund the RI/FS. At this time, RI/FS has been completed. The work proceeded in accordance with the schedule established by PREPA and the other designated potentially responsible parties. On July 2010, a proposed plan was issued identifying the Preferred Alternative to address soil contamination at the Vega Baja Solid Waste Disposal Site. EPA held a public hearing on August 3 2010 to discuss the alternatives to address soil contamination. A Record of Decision (ROD) by EPA is scheduled for the end of September 2010 in which a determination of the selected alternative will be made.

On January 10, 2008, PREPA and Skanska Energy Services, LLC (Skanska) entered into an Engineer Procure Construct Finance Contract for the construction of the Gasoducto del Sur Project (the "Project") for an original Contract Price of $74,324,259. On December 2, 2008, the Superior Court of Ponce issued and injunction stopping all construction. On July 23, 2009, PREPA's Governing Board authorized the termination and settlement of the Contract. PREPA obtained title to all equipment and material procured and 100% of engineering documents and all pending disputes were settled for a lump-sum payment of $59,000,000 due to the Contractor. The Termination and Settlement Agreement was executed on August 7, 2009. Pursuant to an Asset Purchase Agreement dated August 17, 2009, PREPA sold the assets of the Gasoducto del Sur Project to The Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority (AFICA by its Spanish acronym) for approximately $36 million. In addition, PREPA entered into a Subordinated Loan Agreement with the Government Development Bank (GDB) for $35,000,000 evidenced by a 24-month subordinated note until such time that Puerto Rico Aqueduct and Sewer Authority (PRASA) shall purchase from AFICA the Project.

- *PRASA* — On July 1, 2003, PRASA entered into an agreement (Civil Action No. 01-1709) to attain compliance with the Clean Water Act in relation to PRASA's wastewater pump stations (WWPSs). PRASA completed all improvements projects required by EPA for these WWPSs. The agreement also required PRASA to invest $1 million in the implementation of a Supplemental Environmental Project (SEP). This project consists of the hook up of three NON-PRASA communities to the PRASA's drinking water system. The agreement also required the implementation of the Preventive Maintenance Program (PMP) for all of PRASA's WWPSs. This is scheduled to be completed by December of 2010. PRASA has paid stipulated penalties ranging from $30 to $150 thousands on a quarterly basis for by-passes that occurred at the pump stations. The amount paid during the fiscal year 2010 was $400,000.

  On June 22, 2006, PRASA entered into a consent decree (Civil Action No. 06-1624) with EPA that requires PRASA to implement system-wide remedial measures at all of the wastewater treatment plants operated by PRASA. The decree establishes deadlines for the compliance with the conditions set forth in the agreement and stipulates penalties for violation of any of those deadlines. PRASA was assessed a penalty of $1 million which was paid during fiscal year 2008. In accordance with this consent decree, PRASA deposited in an escrow account with GDB the amount of $3 million. These funds will be used for providing sewer service to a community that has not been connected to PRASA's sewer system. PRASA has paid stipulated penalties ranging from $300,000 to $500,000

on a yearly basis for non compliance of the agreement. During fiscal year 2010, PRASA deposited the amount of $500,000 in an escrow account.

On May 25, 2006, PRASA entered into a plea agreement with the U.S. Department of Justice related to violations of the Clean Water Act, as amended, Title 33, USC, Section 11311(a) and 1319(c)(2)(A). As part of the agreement (Criminal Case No. 06-CR-00202-001), PRASA paid a $9 million fine. In addition, the agreement required PRASA to comply with several special conditions, such as: (i) upgrade the collection and wastewater treatment system of the Ponce de Leon Avenue Area of San Juan for a cost of not less than $10 million to prevent direct discharges to the Martín Peña Canal; (ii) upgrade nine wastewater treatment plants for a cost of not less than $109 million; and (iii) comply with a consent decree signed by PREPA with the U.S. government on June 22, 2006. The plea agreement also established stipulated penalties for violation of any on the deadlines of performance standards set forth in the agreement. Currently, PRASA is in compliance with the deadlines and requirements of this consent order.

On December 15, 2006, an agreement was signed between PRASA and the Department of Health of the Commonwealth relating to violations of the Safe Drinking Water Act, as amended. The agreement was preliminary approved by the supervising court on March 15, 2007 and it was amended and finally approved by the court on June 20, 2008. PRASA agreed to implement a work plan to remediate the violations, establish preventive and mitigation measures, and execute a preventive maintenance program for the purpose of meeting the requirements of the Safe Drinking Water Act. As part of the agreement, PRASA paid a penalty of $1 million during fiscal year ended June 30, 2007. During fiscal year ended June 30, 2008 and based on the amendment and final approval of the agreement, PRASA accrued approximately $2.7 million for penalties for noncompliance as stipulated by the final agreement, which were paid during fiscal year 2009. Also, as part of the penalties for noncompliance with the remedial measures of the agreement with the Department of Health during fiscal year 2009, $1.3 million were deposited in a GDB escrow account to be used for a SEP. During fiscal year ended June 30, 2010, PRASA paid the amount of $100,000, part paid in penalties and part deposited in an escrow account.

On November 2007, PRASA entered into negotiation of a consent decree (Civil Action No. 10-1365) with EPA that requires PRASA to implement system wide remedial measures at all of the sludge treatment systems at the water treatment plants owned and operated by PRASA. The consent decree was lodged on May 3, 2010 and its entry date was August 24, 2010. This consent order closed previous consent orders known as PRASA II Civil Action No. 92-1511 and PRASA III Civil Action No. 00-2554. This consent order establishes deadlines for the compliance with the conditions set forth in the proposed agreement and stipulates penalties for violation of any of those deadlines.

PRASA was assessed a penalty of $3.2 million which will be paid during fiscal year 2011. In accordance with this consent decree, from the amount of $3.2 million, PRASA will have to pay a civil penalty of approximately $1 million to the United States Treasury and will have to deposit in an escrow account with GDB, $2.5 million for the design and construction of a SEP. One of the projects that are under evaluation is the installation of aeration systems to improve water quality in Lake Cidra and Lake Toa Vaca.

PRASA is a defendant in other environmental minor lawsuits, pending trial or final judgment. PRASA intends to vigorously defend itself against all of the allegations. Management, based on the advice of legal counsel, is of opinion that any liability that may result from such lawsuits would not have a material adverse effect on PRASA’s financial positions as of June 30, 2010.

- *PRSWA* — PRSWA initiated in years prior to the year ended June 30, 2010, the implementation and development of the Strategic Plan for Recycling and Disposal of Solid Waste in Puerto Rico at an estimated cost of approximately $112 million. The first stage consists of the construction of thirty-nine (39) projects to be financed through and interim financing agreement with the Government Development Bank for Puerto Rico. The lines-of-credit under the agreement were paid by the Treasury Department through joint resolutions approved by the Legislature of Puerto Rico. PRSWA has continued with the planning and construction of the projects.

  During May 2008, PRSWA approved the "Dynamic Itinerary for the Infrastructure Projects of Solid Waste in Puerto Rico". This itinerary defines the strategies for safe and efficient handling of solid waste in Puerto Rico for the next twenty-five (25) years in compliance with all applicable regulations. PRSWA proposes this itinerary for the purpose of adopting this plan as the official instrument to guide public policy for the development of infrastructure projects for handling and final disposition of solid waste in Puerto Rico. The projects proposed in the itinerary includes programs to develop facilities for the recovery of recyclable materials (MRF's), facilities for the deposit of acceptable sludge, facilities to convert solid waste to energy, transshipment facilities and lateral expansion to sanitary stuffing systems (SRS). The development of these projects takes into consideration the closing of various SRS. The construction investment is estimated in approximately $1.9 billion dollars. PRSWA projects that financing for these projects will come from both the public and private sectors.

Construction Commitments — As of June 30, 2010, the following component units maintained various unspent construction agreements as follows (expressed in thousands):

Puerto Rico Aqueduct and Sewer Authority	$ 668,400
Puerto Rico Highways and Transportation Authority	641,028
Port of the Americas Authority	166,403
Puerto Rico Infrastructure Financing Authority	76,565
Company for the Integral Development of the "Península de Cantera"	53,456
Puerto Rico Medical Services Administration	33,539
Puerto Rico Ports Authority	25,000
Puerto Rico Electric Power Authority	23,562
Puerto Rico Maritime Transportation Authority	16,236
Puerto Rico Conservatory of Music Corporation	10,000
Institute of Puerto Rican Culture	5,916
Puerto Rico Land Administration	1,439
Institutional Trust of the National Guard of Puerto Rico	1,161
Puerto Rico Convention Center District Authority	1,000
Puerto Rico Industrial Development Company	559
Puerto Rico Trade and Export Company	46
Total	$ 1,724,310

20. RETIREMENT SYSTEMS

The Commonwealth sponsors three contributory pension plans (collectively known as the "Retirement Systems"), which are reported in the accompanying statement of fiduciary net assets:

- Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS)
- The Commonwealth of Puerto Rico Judiciary Retirement System (JRS)
- Puerto Rico System of Annuities and Pensions for Teachers (TRS)

Each system is independent; thus, their assets or liabilities may not be transferred from one system to another or used for any purpose other than to benefit the participants of each system.

The Retirement Systems issue financial reports, which are publicly available and include the basic financial statements, the required trend information, and any other required supplementary information. These reports may be obtained by written request to the corresponding retirement system administrator at the addresses detailed in note 1(b).

(a) ERS

Plan Description — The ERS is a defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration and was created by Act No. 447 on May 15, 1951. The ERS began operations on January 1, 1952, at which date, contributions by employers and participating employees commenced. The ERS is a pension trust fund of the Commonwealth. The ERS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The responsibility for the proper operation and administration of the ERS is vested on the board of trustees, composed of two participating employees and one pensioner, who are appointed by the Governor of the Commonwealth. Also, there are four Commonwealth government agency representatives, which are the Secretary of the Treasury, the President of the Government Development Bank for Puerto Rico, the Executive Director of the Commonwealth's Human Resources Office, and the Municipal Affairs Commissioner.

As of June 30, 2010, the ERS has an unfunded actuarial accrued liability of approximately $17,837 million, representing an 8.5% funding ratio using net assets. In the opinion of management and based on information prepared by external consulting actuaries, if measures are not taken now to deal with this situation, the ERS will not be able to fully fund pensions beginning in fiscal year 2019; however, net assets held in trust for pension benefits will be exhausted during fiscal year 2014. This situation could have a direct negative effect on the Commonwealth's general fund, since most of the employers under the ERS are government agencies obligated to make actuarial contributions to fund the ERS.

To attend to these issues, the Governor of the Commonwealth (the "Governor"), by Executive Order OE-2010-10 dated March 12, 2010, created the Special Commission on the Retirement Systems Reform (the "Commission"), to provide individual and/or group recommendations on actions that the executive and legislative branches can execute to provide immediate alternatives to ease the current crisis and long-term solutions to improve the financial condition of the ERS.

On October 21, 2010, the Commission presented a report to the Governor that included specific recommendations addressing the current fiscal crisis and cash flow problems of ERS. Among these

recommendations, the Commission proposed increasing the contribution percentages, restructuring benefits and establishing certain limitations on loans, among other.

After reviewing the Commission's report, ERS and the Commonwealth, with the assistance of the ERS external consulting actuaries, concluded that annual increases in the employers' contribution rate would be required to fully fund pensions, without having to liquidate ERS investment portfolio. It is the intention of the Commonwealth to include such increase in contributions as part of its fiscal year 2012 budget and in the annual budgets thereafter. The Commonwealth is committed to finding a long-term solution to the funding situation of ERS.

The successful implementation of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

The ERS consists of different benefit structures pursuant to Act No. 447 of 1951, as amended, including a cost-sharing multi-employer contributory defined benefit program and a cash balance program, similar to a cash balance plan. The ERS is sponsored by the Commonwealth, public corporations, and municipalities of Puerto Rico. Substantially all full-time employees of the Commonwealth and its instrumentalities (Commonwealth Agencies, Municipalities, and Public Corporations, including the ERS) are covered by the ERS. All regular, appointed, and temporary employees of the Commonwealth at the date of employment become plan members of the ERS. The ERS is optional for Commonwealth officers appointed by the Governor and Head of Agencies.

Plan members, other than those joining the ERS after March 31, 1990, are eligible for the benefits described below:

Retirement Annuity — Plan members are eligible for a retirement annuity upon reaching the following age:

Policemen and Firefighters	Other Employees
50 with 25 years of credited service	55 with 25 years of credited service
58 with 10 years of credited service	58 with 10 years of credited service

Plan members are eligible for monthly benefit payments determined by the application of stipulated benefit ratios to the plan member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by the ERS. The annuity, for which a plan member is eligible, is limited to a minimum of $400 per month and a maximum of 75% of the average compensation.

Merit Annuity — Plan members are eligible for merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65% and a maximum of 75% of the average compensation.

Deferred Retirement Annuity — A participating employee who ceases to be an employee of the Commonwealth after having accumulated a minimum of 10 years of credited service qualifies for retirement benefits provided his/her contributions to the ERS are left within the ERS until attainment of 58 years of age.

Coordinated Plan — On the coordinated plan, the participating employee contributes a 5.775% of the monthly salary for the first $550 and 8.275% for the excess over $550. By the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced by the following:

- $165 per month if retired with 55 years of age and 30 years of credited service
- $110 per month if retired with less than 55 years of age and 30 years of credited service
- All other between $82 and $100 per month
- Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over $165 per month

Noncoordinated Plan — On the noncoordinated plan, the participating employee contributes an 8.275% of the monthly salary and does not have any change on the pension benefits upon receiving social security benefits.

Reversionary Annuity — A plan member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The life annuity payments would start after the death of the retiree for an amount not less than $240 yearly or greater than the annuity payments being received by the retiree.

Occupational Disability Annuity — A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled, is eligible for a disability annuity of 50% of the compensation received at the time of the disability.

Nonoccupational Disability Annuity — A participating employee totally and permanently disabled for causes not related to his/her occupation, and with no less than 10 years of credited service, is eligible for an annuity of 1.5% of the average compensation of the first 20 years of credited services increased by 2% for every additional year of credited service in excess of 20 years.

Death Benefits

Occupational:

Surviving Spouse — annuity equal to 50% of the participating employee's salary at the date of the death.

Children — $10 per month for each child, minor or student, up to a maximum benefit per family of 100% of the participating employee's salary at the date of the death. If no spouse survives, or dies while receiving the annuity payments, each child, age 18 or under, is eligible to receive an annuity of $20 per month up to the attainment of 18 years of age or the completion of his/her studies.

Nonoccupational:

Beneficiary — the contributions and interest accumulated as of the date of the death plus an amount equal to the annual compensation at the time of death.

Postretirement — Beneficiary with surviving spouse age 60 or over and child, age 18 or under, up to 50% (60%, if not covered under Title II of the Social Security Act) of retiree's pension or otherwise the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $750.

Refunds — A participating employee who ceases his/her employment with the Commonwealth without right to a retirement annuity has the right to a refund of the contributions to the ERS, plus any interest earned thereon.

Amendments to Benefits Structure for Plan Members who Joined the ERS on or After April 1, 1990 — Act No. 1 of February 16, 1990, made certain amendments applicable to new participating employees joining the ERS effective April 1, 1990. These changes consist principally of an increase in the retirement age from 55 to 65, a decrease in the benefit percentage of the average compensation in the occupational disability and occupational death benefits annuities from 50% to 40%, and the elimination of the merit annuity for participating employees (except policemen and firemen) who have completed 30 years of creditable service.

Cost of Living Adjustment for Pension Benefits — Act No. 10 of May 21, 1992, provided for increases of 3% every three years, of the pensions paid by the ERS to those plan members with three or more years of retirement. The Act requires further legislation to grant this increase every three years, subject to the presentation of actuarial studies regarding its costs and the source of financing. Since fiscal year 1992 to 2007 there have been other acts addressing the cost of living allowance (C.O.L.A.) as Act No. 207 of August 13, 1995; Act No. 221 of August 9, 1998; Act No. 40 of June 13, 2001; Act No. 157 of June 27, 2003; and Act No. 35 of April 24, 2007.

On April 24, 2007, the Governor signed the Act No. 35 to provide for an increase of 3% of the pension paid by the ERS to those plan members whose monthly pension is less than $1,250, effective on July 1, 2008.

To protect the financial health of the ERS, the increases granted pursuant to the above laws are being financed through annual appropriations from the Commonwealth and contributions from municipalities and public corporations.

Other Benefits Granted — For fiscal years 2003 to 2007, the Commonwealth granted additional benefits to the ERS's retirees. As of June 30, 2010, these increases are being funded through special appropriations from the Commonwealth for the amount corresponding to the Commonwealth agencies and by contributions from the public corporations and municipalities.

Early Retirement Programs — During fiscal year 2001, the Commonwealth granted three additional retirement programs through Act No. 370 of December 31, 1999, Act No. 119 of July 13, 2000, and Act No. 174 of August 12, 2000. These acts applied to employees of the Municipality of San Juan, employees of the State Insurance Fund Corporation and the employees within the three branches of the Commonwealth, respectively. These early retirement programs ended in fiscal year 2006, at which time, these employees became fully beneficiaries of the ERS. In order to avoid any economic impact on the ERS, the employers were responsible for contributing to the ERS the amounts to cover the benefit payments and the employer and employee contributions with respect to the plan members covered until the attainment of the normal retirement age.

During fiscal year 2006, the Puerto Rico Industrial and Development Company (PRIDCO) implemented an early retirement program for its employees under Act No. 143, dated November 22, 2005. PRIDCO will reimburse the annuities and other benefits paid by the ERS during a five-year period, plus the employer and employee contributions with respect to the plan members covered until the attainment of the normal retirement age.

During fiscal year 2008, the Commonwealth issued Act No. 70, dated July 13, 2007, to implement an early retirement program for the employees of the Puerto Rico National Parks Company. The Municipality of San Juan issued the Resolution No. 41, dated May 5, 2008, which provided an early retirement program for the municipalities' employees. Also, GDB implemented an early retirement program for its employees under the Act No. 188 of December 12, 2007. The Puerto Rico National Parks Company has already made two payments and would reimburse the remaining balance on

annuities and other benefits paid by the ERS in three installments on each July 31 starting on 2009 through 2011. The Municipality of San Juan will reimburse the annuities and other benefits paid by the ERS during a five-year period, plus the employer and employee contributions with respect to the plan members covered until they reach the normal retirement age.

The Land Authority of Puerto Rico (the "Land Authority") implemented an early retirement program for its employees under Law No. 59 of January 31, 2008. The Land Authority has already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the ERS in four installments on each July 31 starting on 2009 through 2012.

The Right to Employment Administration (the "Administration") implemented an early retirement program for its employees under Law No. 275 of December 31, 2008. The Administration already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the ERS in four installments on each July 31 starting on 2009 through 2012.

The Puerto Rico Environmental Quality Board (the "EQB") implemented an early retirement program for its employees under the Law 224 Act No. 7 dated August 9, 2008. The EQB already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the ERS in four installments on each July 31 starting on 2009 through 2012.

The Puerto Rico Department of Labor and Human Resources (the "Department of Labor") implemented an early retirement program for its employees under the Law 136 dated July 29, 2008. The Department of Labor already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the ERS in four installments on each July 31 starting on 2009 through 2012.

Amendment to Act No. 447 Effective January 1, 2000, to Create System 2000 — On September 24, 1999, Law 305, an amendment to Act No. 447 of May 15, 1951, which created the ERS, was enacted to provide for a new benefit structure, similar to a cash balance plan, known as System 2000, to cover employees joining the ERS on or after January 1, 2000.

Employees participating in the ERS as of December 31, 1999, were allowed to elect either to stay in the defined benefit structure or transfer to System 2000. People joining the public sector on or after January 1, 2000, are only allowed to become members of System 2000. Under System 2000, contributions received from participants are pooled and invested by the ERS, together with the assets corresponding to the defined benefit structure. There are no separate accounts for System 2000 participants. Future benefit payments under the original defined benefit structure and System 2000 will be paid from the same pool of assets. As a different benefit structure, System 2000 is not a separate plan, and as such, is not presented separately from the original defined benefit structure, pursuant to the provisions of GASB Statement No. 25. The Commonwealth does not guarantee benefits at retirement age.

The annuity benefits to participants is based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested as instructed by the employee in an account which either: (1) earns a fixed rate based on the two-year Constant Maturity Treasury Notes or, (2) earns a rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earns a combination of both alternatives. Plan members receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability benefits are not granted under System 2000 rather should be provided to those plan members that voluntarily elect to participate in a private insurance long-term disability program. The employers' contributions (9.275% of the

employee's salary) with respect to employees under System 2000 will continue but will be used to fund the defined benefit plan. System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or after January 1, 2000.

At June 30, 2010, System 2000's membership consisted of 55,279 current participating employees.

Funding Policy — The contribution requirement to the ERS is established by law and is not actuarially determined. Required employers' contributions consist of 9.275% of applicable payroll in the cases of municipalities, central government, and public corporations. Required employee contribution consists of 5.775% of the first $550 of the monthly salary with the excess at 8.275% for the coordinated benefit structure and 8.275% of the total monthly salary for participating employee's contributions for the non-coordinated benefit structure. If necessary, additional non payroll related contributions from the Commonwealth should ultimately cover any deficiency between the participating employers' and employee's contributions and the ERS's pension benefit obligations and general and administrative deductions.

ERS, besides the contributions received from plan members and employers, also receives legislative appropriations from special laws to cover additional benefits and the increase in benefits to retired employees. In the past years, there have been laws that granted additional benefits, such as, summer and Christmas bonuses, and various increases in cost of living allowances (3%), among others.

(b) JRS

Plan Description — The Commonwealth of Puerto Rico Judiciary Retirement System (the "JRS") is a defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration (the "Administration") and was created by Act No. 12 on October 19, 1954 ("Act No. 12 of 1954"). The JRS is a pension trust fund of the Commonwealth and is not an employer. The JRS provides retirement benefits to the employees of the judiciary branch of the Commonwealth, through the office of the Administration of Court Facilities (the "Employer"). The JRS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The responsibility for the proper operation and administration of the JRS is vested on a board of trustees, composed of two participating employees and one pensioner, who are appointed by the Governor of the Commonwealth. Also, there are four Commonwealth government agency representatives, which are the Secretary of the Treasury, the President of the Government Development Bank for Puerto Rico, the Commissioner of Municipalities Affairs, and the Executive Director of the Human Resources Office of the Commonwealth of Puerto Rico.

As of June 30, 2010, the JRS has an unfunded actuarial accrued liability of approximately $283 million, representing a 16.4% funding ratio. In the opinion of management and based on information prepared by consulting actuaries, if measures are not taken now to deal with this situation, the JRS will not be able to fully fund pensions during fiscal year 2018. This situation could have a direct negative effect on the Commonwealth's general fund, since the Commonwealth is the plan sponsor and is obligated to make actuarial contributions to fund the JRS.

To attend to these issues, the Governor of the Commonwealth (the "Governor"), by Executive Order OE-2010-10 dated March 12, 2010, created the Special Commission on the Retirement Systems Reform (the "Commission"), to provide individual and/or group recommendations on actions that the executive and legislative branches can execute to provide immediate alternatives to ease the current crisis and long-term solutions to improve the financial condition of the JRS.

On October 21, 2010, the Commission presented a report to the Governor that included specific recommendations addressing the current fiscal crisis and cash flow problems of the System. Among these recommendations, the Commission proposed increasing the contribution percentages, restructuring benefits and establishing certain limitations on loans, among other.

After reviewing the Commission's report, JRS and the Employer, with the assistance of the System's external consulting actuaries, concluded that annual increases in the Employer's contributions would be required to fully fund pensions, without having to liquidate JRS's investment portfolio. It is the intention of the Employer to make such additional contributions during its fiscal year 2012 and thereafter. The Commonwealth is committed to finding a long-term solution to the funding situation of JRS.

The successful implementation of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

The JRS consists of a single – employer defined benefit plan sponsored by the Commonwealth. Under the terms of Act No. 12 of 1954, as amended, all judges of the judiciary branch of the Commonwealth are plan member of the JRS.

Members of the JRS are eligible for the following benefits:

Retirement Annuity — Plan members with 10 years of credited service are eligible for retirement upon reaching 60 years of age.

Plan members are eligible for monthly benefit payments determined by the application of a stipulated benefit to the plan member's average compensation. Average compensation is computed based on the last month of compensation. The annuity for which a plan member is eligible, is limited to a minimum of 25% and a maximum of 75% of the average compensation, except for the judges of the Supreme Court for whom the annuity is limited to a minimum of 50% and a maximum of 100% of the average compensation received by the members of the Supreme Court.

Reversionary Annuity — A plan member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependants. The payments would start after the death of the retiree, for an amount not less than $120 yearly or greater than the annuity payments being received by the retiree.

Occupational Disability Annuity — A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled, is eligible for a disability annuity of 50% of the compensation, received at the time of the disability.

Nonoccupational Disability Annuity — A participating employee totally and permanently disabled for causes not related to his/her occupation, and with no less than 10 years of credited service, is eligible for annuity of 30% of the average compensation of the first 10 years of credited services, increased by 1% for every additional year of credited service in excess of 10 years, up to a maximum of 50% of the average compensation.

Death Benefits

Occupational:

- Surviving spouse — annuity equal to 50% of the participating employee's salary at the date of the death.

- Children — $10 per month for each child, minor or student, up to a maximum benefit per family of 75% of the participating employee's salary at the date of the death. If no spouse survives or dies while receiving the annuity payments, each child, 18 or under, is eligible to receive an annuity of $20 per month up to the attainment of 18 years of age or the completion of his/her studies.

Nonoccupational:

The contributions and interest accumulated as of the date of the death, plus an amount equal to the annual compensation at the time of the death.

Postretirement:

- Surviving spouse and child, 21 or under — up to 60% of the retiree's pension.

- Other designated by the retiree — the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $500.

Refunds — A participating employee who ceases his/her employment with the Commonwealth without right to a retirement annuity has the right to a refund of the contributions to the JRS, plus any interest earned thereon.

Cost of Living Adjustment for Pension Benefits — Act No. 177 of 1997 provides, effective January 1, 1999, for increases of 3%, every three years, of the pensions paid by the JRS to those plan members with three or more years of retirement. The act requires further legislation to grant this increase every three years.

Funding Policy — The contributions to the JRS are established by law and are not actuarially determined. During 2009, the JRS and the Employer entered into an agreement to increase the Employer's contributions from 20% to 30.34%, effective on July 1, 2008. Employees' contributions consist of 8% of the employees' monthly salary. Contributions from the Commonwealth should ultimately cover any deficiency between the employer's and employees' contributions and the JRS's pension benefit obligations and administrative costs.

(c) TRS

Plan Description — The Puerto Rico System of Annuities and Pensions for Teachers (the "TRS") is a defined benefit plan administered by the Puerto Rico Teachers Retirement System and was created by Act No. 91 of March 29, 2004, that superseded Act No. 218 of May 6, 1951. The TRS is considered an integral part of the Commonwealth's financial reporting entity and is included in the Commonwealth's basic financial statements as a pension trust fund. The TRS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974.

The responsibility for the proper operation and administration of the TRS is vested in a Board of Trustees (the "Board").

The TRS is a defined benefit plan sponsored by the Commonwealth. Substantially, all active teachers of the Commonwealth's Department of Education are covered by the TRS under the terms of Act No. 91 of March 29, 2004, that superseded Act No. 218 of May 6, 1951. The new law gives the Puerto Rico Teachers Retirement System's active employees as of March 29, 2004, the option to

participate in the plan. Employees recruited by the Puerto Rico Teachers Retirement System after the approval of the new law become members of the plan. All active teachers of the Department of Education become plan members of the TRS at their date of employment. Licensed teachers working in private schools or other educational organizations can be members of the TRS at their own choice as long as the required employer and employee contributions are satisfied.

As of June 30, 2010, TRS has an unfunded actuarial accrued liability of approximately $7 billion, resulting in a funding ratio of 24%. In the opinion of management, based on information prepared by consulting actuaries, if measures are not taken now to deal with this situation, TRS will not be able to fully fund pensions in fiscal years beginning after June 30, 2020. This situation could have a direct negative effect on the Commonwealth's general fund, since the Commonwealth is the ultimate plan sponsor and will be obligated to make actuarial contributions to fund TRS.

To attend to these issues, the Governor of the Commonwealth (the "Governor"), by Executive Order OE-2010-10 dated March 12, 2010, created the Special Commission on the Retirement Systems Reform (the "Commission") to provide individual and/or group recommendations on actions that the executive and legislative branches can execute to provide immediate alternatives to ease the current crisis and long-term solutions to improve the financial condition of TRS.

On October 21, 2010, the Commission presented a report to the Governor that included specific recommendations addressing the current fiscal crisis and cash flow problems of TRS. Among these recommendations, the Commission proposed increasing the contribution percentages, restructuring benefits and establishing certain limitations on loans, among other.

After reviewing the Commission's report, TRS and the Commonwealth, with the assistance of the TRS's external consulting actuaries, concluded that annual increases in the employers' contribution rate will be required to fully fund pensions, without having to liquidate the TRS's investment portfolio. It is the intention of the Commonwealth to include such increase in contributions as part of its fiscal year 2012 budget and in the annual budgets thereafter. The Commonwealth is committed to finding a long-term solution to the funding situation of TRS.

The successful implementation of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

The plan members of the TRS are eligible for the benefits described below:

Retirement Annuity — Plan members are eligible for monthly benefit payments determined by the application of stipulated benefit ratios to the plan member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by the TRS. The annuity for which a plan member is eligible is limited to a minimum of $400 per month and a maximum of 75% of the average compensation.

The plan members are eligible for retirement annuity benefits upon complying with the following:

Age	Years of Creditable Services	Retirement Annuity Compensation
Fifty	30 or more	75% of average compensation
Under fifty	30 or more	65% of average compensation
Sixty	At least 10, but less than 25	1.8% of average compensation times years of service
Fifty	At least 25, but less than 30	1.8% of average compensation times years of service
Forty-seven but less than Fifty	At least 25, but less than 30	95% of the annual pension that would have received with 50 years of age

Deferred Retirement Annuity — A participating employee who terminates service before age 60, after having accumulated a minimum of ten years of creditable services, qualifies for a deferred retirement annuity payable beginning at age 60. A participating employee who has completed 25 or more years of creditable services and is under the age of 47 at termination, qualifies for a deferred retirement annuity payable beginning at age 47. The vested rights described above are provided if his/her contributions to the TRS are left within the TRS until the attainment of the respective retirement age.

Occupational Disability Annuity — A participating employee, who as a direct result of the performance of his/her occupation becomes disabled, is eligible for an annuity of 1.8% of average compensation based on the highest 60 months or the number of months of creditable services, if less than five years, recognized by the TRS, times years of creditable services; but not less than $400 per month.

Nonoccupational Disability Annuity — A participating employee disabled for causes not related to his/her occupation, and with at least five years of credited service, is eligible for an annuity of 1.8% of average compensation based on the highest 60 months recognized by the TRS, times years of service; but not less than $400 per month.

Death Benefits:

Pre-retirement — The beneficiaries receive the contributions made to the plan and 2% interest accumulated as of the date of death (after discounting debts with the TRS), plus an amount equal to the annual compensation of the member at the time of death.

Post-retirement — The surviving spouse receives 50% of the retiree's pension and if there are children under 22 years of age or disabled (until disability ceases), they receive the other 50% of the pension. If there is no surviving spouse or children who qualify, the beneficiaries receive the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $1,000.

Refunds — A participating employee who ceases his/her employment with the Commonwealth without the right to a retirement annuity has the right to a refund of the employee contributions paid to the TRS, plus any interest earned thereon.

Early Retirement Program — On January 27, 2000, Act No. 44 was approved, which provided that effective March 9, 2000, plan members are eligible for early retirement upon attaining the age of 50 and 28 years of services in the first year of implementation and age 50 and 25 years of service in subsequent years. Those who select early retirement under these conditions will receive monthly benefits equal to 75% of their average compensation, which is computed based on the highest 36 months of compensation recognized by the TRS. Effective July 31, 2001, the option for early retirement was closed.

Special Benefits — Special benefits include the following:

- Christmas Bonus — An annual bonus of $600 for each retiree and disabled member paid each December. The TRS pays $150 per retiree and disabled member and the remaining bonus is paid by the Commonwealth.

- Summer Bonus — An annual bonus of $100 for each retiree, beneficiary, and disabled member paid each July. This benefit is prorated if there are multiple beneficiaries and is funded by the Commonwealth.

- Medication Bonus — An annual bonus of $100 for each retiree, beneficiary, and disabled member paid each July to cover health costs. Evidence of coverage is not required. This benefit is funded by the Commonwealth.

- Cost-of-Living Adjustments — Act No. 62 of September 4, 1992 provided, subject to the approval of the Legislature of the Commonwealth (the "Legislature"), for increases of 3% every three years in pensions to those plan members with three or more years of retirement. In years 1995, 1998, 2001, 2004, and 2007, the Legislature has replicated the benefit granted per Act No. 62 of September 4, 1992. This benefit is funded by the Commonwealth. The Legislature did not approve this benefit increase.

Funding Policy — The law requires the employer to contribute 8.5% of the applicable payroll. Participating employees are required to contribute 9% of their compensation. Commonwealth contributions should ultimately cover any deficiency between the participating employees' contributions and the TRS's pension benefit obligations and administrative costs. The employer and participants' contributions will be evaluated at least every five years.

The special contributions of approximately $46,572,000 in 2010 represent contributions from the general fund of the Commonwealth for special benefits granted by special laws.

Other relevant information on the Commonwealth's Retirement Systems is presented below (as of June 30, 2010, for ERS, JRS, and TRS):

(d) Membership

	ERS	JRS	TRS	Total
Retirees and beneficiaries currently receiving benefits	106,538	394	34,373	141,305
Current participating employees	140,642	362	44,679	185,683
Total	247,180	756	79,052	326,988

(e) Annual Pension Cost and Net Pension Obligation

The Commonwealth's annual pension cost and net pension obligation of the three pension plans for the year ended June 30, 2010 were as follows (expressed in thousands):

	ERS	JRS	TRS	Total
Annual required contributions	$ 1,459,774	$ 28,127	$ 477,213	$ 1,965,114
Interest on net pension obligation	411,812	1,442	99,535	512,789
Adjustment to annual required sponsors' contributions	(474,435)	(1,673)	(80,410)	(556,518)
Annual pension cost	1,397,151	27,896	496,338	1,921,385
Statutory sponsors' contributions made	(534,275)	(11,006)	(166,384)	(711,665)
Increase in net pension obligation	862,876	16,890	329,954	1,209,720
Net pension obligation at beginning of year	5,490,824	19,220	1,244,186	6,754,230
Net pension obligation at end of year	$ 6,353,700	$ 36,110	$ 1,574,140	$ 7,963,950

The net pension obligation for ERS, JRS and TRS of $8 billion, are recorded in the accompanying statement of net assets (deficit).

	ERS	JRS	TRS
Date of latest actuarial valuation	June 30, 2010	June 30, 2010	June 30, 2010
Actuarial-cost method	Projected unit credit cost method with straight proration based on service to decrement	Projected unit credit cost method with straight proration based on service to decrement	Entry age normal
Amortization method	30 years closed, level percentage of the projected payroll	30 years closed, level percentage of the projected payroll	30 years closed, level percentage of the projected payroll
Remaining amortization period	27 years	16 years	27 years
Amortization approach	Closed	Closed	Closed

The annual required contribution was determined by actuarial valuations for each of the pension plans as described below:

	ERS	JRS	TRS
Asset-valuation method	Market value of assets	Market value of assets	Market value of assets
Actuarial assumptions:			
Inflation	2.5 %	2.5 %	2.5 %
Investment rate of return	7.5 %	7.5 %	8.0 %
Projected salary increases per annum	3.0% (no increase in 2009–10 and 2010–11)	3.0 %	3.5 % (general wage inflation, plus service — based merit increase)
Cost-of-living adjustments	0.99% annually to approximate 3.0% triennial increases	0.99% annually to approximate 3.0% triennial increases	None

(f) Three Year Trend Information

The three year trend information is as follows (expressed in thousands):

	ERS	JRS	TRS
Annual pension cost (APC):			
Year ended June 30, 2010	$1,397,151	$27,896	$ 496,338
Year ended June 30, 2009	1,207,487	22,122	459,645
Year ended June 30, 2008	1,149,597	19,829	355,742
Percentage of APC contributed:			
Year ended June 30, 2010	38.2 %	39.5 %	33.5 %
Year ended June 30, 2009	49.2	50.2	42.0
Year ended June 30, 2008	50.6	36.6	52.0
Net pension obligation (asset):			
Year ended June 30, 2010	6,353,700	36,110	1,574,140
Year ended June 30, 2009	5,490,824	19,220	1,244,186
Year ended June 30, 2008	4,877,846	8,203	957,382

(g) Funded Status

Funded status of the pension plans as of June 30, 2010, the most recent actuarial valuation date, is as follows (expressed in thousands):

	ERS	JRS	TRS	Total
Actuarial accrued liability	$19,501,761	$338,195	$9,280,000	$29,119,956
Actuarial value of assets	1,664,991	55,410	2,222,000	3,942,401
Unfunded actuarial accrued liability	$17,836,770	$282,785	$7,058,000	$25,177,555
Funded ratio	8.54 %	16.38 %	23.94 %	13.54 %

The schedule of funding progress included as required supplementary information presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

21. OTHER POSTEMPLOYMENT BENEFITS

The Commonwealth provides postemployment healthcare benefits through defined benefit plans that are administered by the Retirement Systems:

- Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution (ERS MIPC)
- The Puerto Rico Judiciary Retirement System Medical Insurance Plan Contribution (JRS MIPC)
- Puerto Rico System of Annuities and Pensions for Teachers Medical Insurance Plan Contribution (TRS MIPC)

(a) Plans Descriptions

ERS MIPC is a cost sharing multiple employer defined benefit other postemployment benefit (OPEB) plan sponsored by the Commonwealth. JRS MIPC and TRS MIPC are single employer defined benefit OPEB plans sponsored by the Commonwealth. These OPEB plans were created under Act No. 95 approved on June 29, 1963. Healthcare benefits are provided through insurance companies whose premiums are paid by the retiree with the Commonwealth providing a matching share. ERS MIPC covers substantially all full time employees of: (1) the Commonwealth's primary government and (2) certain municipalities of Puerto Rico and certain component units of the Commonwealth not having their own postemployment benefit plan. JRS MIPC covers all judges of Judiciary Branch of the Commonwealth. TRS MIPC covers all active teachers of the Department of Education of the Commonwealth.

Commonwealth employees become plan members upon their date of employment. Plan members are eligible for benefits upon reaching the following age:

ERS MIPC
Police and Firemen

50 with 25 years of credited service
58 with 10 years of credited service

Other Employees

55 with 25 years of credited service
58 with 10 years of credited service

JRS MIPC

60 with 10 years of credited service

TRS MIPC

47 with 25 years of credited service
60 with 10 years of credited service

Funding Policy — The contribution requirement of ERS MIPC, JRS MIPC and TRS MIPC are established by Act No. 95 approved on June 29, 1963. The benefits are paid directly by the Commonwealth to the insurance providers at a rate of a maximum of $100 per month per retiree. All these OPEB plans are financed on a pay-as-you-go basis. There is no contribution requirement for plan member during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. The amount contributed during the year ended June 30, 2010 was as follows (expressed in thousands):

ERS MIPC	$ 85,460
JRS MIPC	295
TRS MIPC	28,427

(b) Funded Status

Funded status of the postemployment healthcare benefit plans as of June 30, 2010, the most recent actuarial valuation date, is as follows (in thousands):

	ERS MIPC	JRS MIPC	TRS MIPC	Total
Actuarial accrued liability (AAL)	$ 1,646,148	$ 5,808	$ 694,230	$ 2,346,186
Actuarial value of assets	-	-	-	-
Unfunded actuarial accrued liability	$ 1,646,148	$ 5,808	$ 694,230	$ 2,346,186

The schedule of funding progress included as required supplementary information present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(c) Membership

	ERS MIPC	JRS MIPC	TRS MIPC	Total
Retirees and beneficiaries currently receiving benefits	106,538	394	34,373	141,305
Current participating employees	140,642	362	44,679	185,683
Total	247,180	756	79,052	326,988

(d) Annual OPEB costs and Net OPEB obligation

The annual OPEB cost and the annual required contribution (ARC) were computed as part of an actuarial valuation in accordance with parameters of GASB Statement No. 45 based on current years demographic data.

The annual ARC for the postemployment healthcare benefit plans were as follows (in thousands):

	ERS MIPC	JRS MIPC	TRS MIPC	Total
ARC				
Normal costs	$ 32,187	$ 123	$ 13,342	$ 45,652
Amortization of unfunded AAL	96,107	365	29,145	125,617
ARC	$ 128,294	$ 488	$ 42,487	$ 171,269

The annual OPEB cost and the net OPEB obligation for the postemployment healthcare benefits plans were as follows (in thousands):

	ERS MIPC	JRS MIPC	TRS MIPC	Total
Annual OPEB cost:				
ARC	$ 128,294	$ 488	$ 42,487	$ 171,269
Interest on net OPEB cost	2,209	14	842	3,065
Adjustment to annual required contribution	(3,314)	(23)	(834)	(4,171)
Annual OPEB cost	127,189	479	42,495	170,163
Statutory sponsor's contributions made	(85,460)	(295)	(28,427)	(114,182)
Increase in net OPEB obligation	41,729	184	14,068	55,981
Net OPEB obligation at beginning of year	55,217	342	21,047	76,606
Net OPEB obligation at year end	$ 96,946	$ 526	$ 35,115	$ 132,587

The net OPEB obligation for ERS MIPC, JRS MIPC, and TRS MIPC totaling $133 million is recorded in the accompanying statement of net assets (deficit).

(e) Actuarial Assumptions

Actuarial valuations of an ongoing plan involve estimates of the net value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continuous revision as actual results are compared with past expectations and new estimates are made about the future.

	ERS MIPC	JRS MIPC	TRS MIPC
Date of latest actuarial valuation	June 30, 2010	June 30, 2010	June 30, 2010
Actuarial-cost method	Projected unit credit cost method	Projected unit credit cost method	Entry age normal
Amortization method	Level percentage of the projected payroll	Level percentage of the projected payroll	Level percentage of the projected payroll
Discount rate	4%	4%	4%
Remaining amortization period	27 years	16 years	27 years
Amortization approach	Closed	Closed	Closed

22. DEBT SERVICE DEPOSIT AGREEMENTS

On May 26, 2005 (but effective on July 1, 2005), the Commonwealth, PFC, and GDB (together the Commonwealth) and Lehman Brothers Special Financing Inc. (Lehman) entered into Debt Service Deposit Agreements (DSD Agreements), the objective of which was for the Commonwealth to secure an upfront payment in exchange for granting Lehman the rights to earnings generated from eight of its debt service funds. On September 25, 2009, as a result of Lehman commencing a case in the United States Bankruptcy Court for the Southern District of New York under chapter 11 of the United States Code, Lehman selected Hexagon Securities LLC to act as the Qualified Dealer under the DSD Agreements and delivered Qualified Securities as permitted under the DSD Agreement. Seven of the funds are associated with the Commonwealth's PFC bonds, presented in the accompanying basic financial statements as Commonwealth appropriation bonds, and one fund is associated with the Commonwealth's general obligation bonds. The upfront payment, which amounted to $82.7 million, was received on May 26, 2005 and equaled the present value of the projected earnings income adjusted for credit timing risks as well as an appropriate amount of compensation for Lehman.

With the upfront payment made as explained above, the Commonwealth delivered to Lehman the required and scheduled debt service deposits and Lehman delivered qualified government debentures, which will mature before the next debt service payment date at an amount approximating such next debt service payment. Lehman will attempt to earn sufficient funds on the debt service deposit amounts, less its cost for the qualified government debentures, to make back the $82.7 million over time. At the same time, the Commonwealth will be managing its borrowings and investments by increasing the predictability of its cash flows from earnings on its investments and not for purpose of speculation. The Commonwealth acknowledges that, in exchange for the upfront payment received, it is foregoing its right to receive investment earnings on the deposit amounts referred to above in the future and that, by accepting the upfront payment, the Commonwealth has minimized the risks resulting from fluctuations in interest rates during the term of the DSD Agreements but also has foregone the possibility of receiving greater returns on such amounts from such fluctuations.

Under the DSD Agreements, the Commonwealth will be exposed to the payment to Lehman of a Termination Amount, as defined in the agreement, principally upon the occurrence of redemption or a defeasance of the related bonds on or prior to the last scheduled deposit date. The amount of the Termination Amount will vary depending on various market conditions, as defined in the DSD Agreements. Under certain market conditions, the Termination Amount owed to Lehman by the Commonwealth may exceed the amount of the original upfront payment received.

The $82.7 million upfront payment received by the Commonwealth was recognized as other revenue for budgetary purposes in 2005; however, under U.S. Generally Accepted Accounting Principles, such upfront payment was deferred and is being recognized proportionally over the future periods the Commonwealth would have otherwise earned such interest earnings. As the effective date of DSD Agreements was July 1, 2005, all of the $82.7 million upfront payment received in 2005 had been recorded as deferred revenue. During fiscal year 2010, approximately $6 million was amortized into other revenue in the accompanying statement of activities.

23. DERIVATIVE INSTRUMENTS

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2010, classified by type, and the changes in fair value of such derivative instruments for the fiscal year then ended as reported in the 2010 financial statements are as follows (amounts in thousands):

			Changes in Fair Value (1)		Fair Value at June 30, 2010 (2)		
Item			Classification	Amount	Classification	Amount	Notional
Governmental activities							
Cash flow hedges:							
1	Pay-fixed interest rate swap	*	Deferred Outflow	$ 12,485	Debt	$ (48,443)	$ 280,000
2	Pay-fixed interest rate swap	*	Deferred Outflow	8,601	Debt	(31,191)	174,982
3	Pay-fixed interest rate swap		Deferred Outflow	2,516	Debt	(9,436)	56,000
4	Pay-fixed interest rate swap		Deferred Outflow	2,616	Debt	(10,287)	56,000
5	Pay-fixed interest rate swap		Deferred Outflow	2,701	Debt	(10,895)	55,975
6	Pay-fixed interest rate swap		Deferred Outflow	1,208	Debt	(5,091)	46,950
7	Pay-fixed interest rate swap		Deferred Outflow	3,166	Debt	(12,578)	62,000
8	Pay-fixed interest rate swap		Deferred Outflow	3,058	Debt	(12,301)	61,975
9	Pay-fixed interest rate swap		Deferred Outflow	2,434	Debt	(9,750)	50,000
10	Pay-fixed interest rate swap	*	Deferred Outflow	5,027	Debt	(17,663)	97,403
11	Pay-fixed interest rate swap		Deferred Outflow	661	Debt	(3,370)	32,815
12	Pay-fixed interest rate swap		Deferred Outflow	590	Debt	(3,364)	32,625
13	Pay-fixed interest rate swap		Deferred Outflow	406	Debt	(3,119)	31,280
14	Pay-fixed interest rate swap		Deferred Outflow	268	Debt	(2,869)	30,005
15	Pay-fixed interest rate swap	*	Deferred Outflow	770	Debt	(2,520)	14,925
16	Pay-fixed interest rate swap	*	Deferred Outflow	770	Debt	(2,518)	14,915
17	Pay-fixed interest rate swap		Deferred Outflow	421	Debt	(1,454)	7,502
18	Pay-fixed interest rate swap		Deferred Outflow	417	Debt	(1,445)	7,500
19	Pay-fixed interest rate swap		Deferred Outflow	426	Debt	(1,470)	7,500
20	Pay-fixed interest rate swap		Deferred Outflow	413	Debt	(1,432)	7,496
21	Pay-fixed interest rate swap		Deferred Outflow	925	Debt	(3,334)	17,365
22	Pay-fixed interest rate swap		Deferred Outflow	756	Debt	(2,641)	14,925
23	Pay-fixed interest rate swap		Deferred Outflow	755	Debt	(2,639)	14,915
24	Pay-fixed interest rate swap		Deferred Outflow	3,904	Debt	(13,019)	67,639
25	Pay-fixed interest rate swap		Deferred Outflow	12,294	Debt	(40,211)	224,268
26	Pay-fixed interest rate swap	**	Deferred Outflow	12,182	Debt	(47,055)	136,000
Investment derivative instruments:							
27	Basis Swap		Investment Revenue	(7,970)	Liability	(62,345)	1,273,778
28	Basis Swap		Investment Revenue	(1,325)	Liability	(21,274)	424,592
29	Forward swap	*	Investment Revenue	1,944	Liability	(4,534)	29,165
30	Forward swap	*	Investment Revenue	2,577	Liability	(5,626)	40,000
31	Forward swap	**	Investment Revenue	35,056	Liability	(97,759)	453,500
32	Forward swap	**	Investment Revenue	36,552	Liability	(98,154)	453,500

(1) Positive (negative) values represent increase (decrease) in fair value.
(2) Negative values represent the Commonwealth’s payable positions.
* Insured swap.
** Derivative instrument corresponds to Puerto Rico Sales Tax Financing Corporation (“COFINA”).
Other derivative instruments correspond to the Commonwealth of Puerto Rico.

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swaps.

The following table shows the derivative instrument position by counterparty at June 30, 2010 (in thousands):

	Total	
Counterparty/Swap	**Notional Amount**	**Fair Value**
Deutsche Bank AG	$ 214,925	$ (35,709)
Goldman Sachs Capital Markets	1,583,753	(144,029)
Morgan Stanley Capital Services Inc.	1,064,656	(142,987)
Royal Bank of Canada	47,205	(8,615)
UBS AG	291,906	(53,230)
Bank of New York	349,165	(58,604)
DEPFA BANK plc	628,482	(128,950)
Merrill Lynch Capital Services, Inc.	97,403	(17,663)
Total	$4,277,495	$ (589,787)

Hedging Derivative Instruments

The following table displays the objective and terms of the Commonwealth's hedging derivative instruments outstanding at June 30, 2010, along with the credit rating of the associated counterparty (amounts in thousands). Regarding derivative instruments where the counterparty is unrated, the rating provided is of the counterparty's guarantor.

Item	Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms: Pays	Terms: Receives	Counterparty Credit Rating Moody's/ S&P
1	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2003 Series C4 & C5 bonds	$ 280,000	07/01/2008	07/01/2021	3.7658 %	67% 1M LIBOR	Aaa/AA
2	Pay-fixed interest rate swap	Hedge of changes in cash flows on Bank of America Index Put Bond	174,982	07/01/2008	07/01/2025	3.6815	67% 1M LIBOR	A3/BBB
3	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2004 Series B-2 bonds	56,000	11/10/2008	07/01/2024	3.5820	59.8% 1M LIBOR + 0.25%	Aa3/A+
4	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2004 Series B-3 bonds	56,000	11/10/2008	07/01/2027	3.5590	58.3% 1M LIBOR + 0.24%	Aa3/A+
5	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2004 Series B-4 bonds	55,975	11/10/2008	07/01/2028	3.5750	58.3% 1M LIBOR + 0.24%	Aa3/A+
6	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2004 Series B-1 bonds	46,950	11/10/2008	07/01/2021	3.3080	59.8% 1M LIBOR + 0.25%	Aa3/A+
7	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2008 Series B-8 bonds	62,000	05/18/2004	07/01/2032	3.5090	57.3% 1M LIBOR + 0.24%	A1/A
8	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2008 Series B-7 bonds	61,975	05/18/2004	06/30/2031	3.5740	58.3% 1M LIBOR + 0.24%	A1/A
9	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2008 Series B-5 bonds	50,000	05/18/2004	06/29/2029	3.5730	58.3% 1M LIBOR + 0.24%	A1/A
10	Pay-fixed interest rate swap	Hedge of changes in cash flows on Bank of America Index Put Bond	97,403	07/01/2008	07/01/2025	3.6815	67.0% 1M LIBOR	A2/A
11	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2006 Series A bonds	32,815	08/10/2006	07/01/2021	4.2000	CPI+.90%	A2/A
12	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2006 Series A bonds	32,625	08/10/2006	07/01/2020	4.3200	CPI+1.02%	A2/A
13	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2006 Series A bonds	31,280	08/10/2006	07/01/2019	4.2900	CPI+1.00%	A2/A
14	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2006 Series A bonds	30,005	08/10/2006	07/01/2018	4.2600	CPI+.98%	A2/A
15	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2007 Series A3 bonds	14,925	10/16/2007	07/01/2029	3.5180	66.0% 1M LIBOR	A2/A
16	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2007 Series A2 bonds	14,915	10/16/2007	07/01/2029	3.5180	66.0% 1M LIBOR	A2/A
17	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2007 Series A8 bonds	7,502	10/16/2007	07/01/2034	3.5180	66.0% 1M LIBOR	A2/A
18	Pay-fixed interest rate swap	Hedge of changes in cash flows on the GDB loan	7,500	10/16/2007	07/01/2033	3.5180	66.0% 1M LIBOR	A2/A
19	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2007 Series A9 bonds	7,500	10/16/2007	07/01/2034	3.5180	66.0% 1M LIBOR	A2/A
20	Pay-fixed interest rate swap	Hedge of changes in cash flows on the GDB loan	7,496	10/16/2007	07/01/2033	3.5180	66.0% 1M LIBOR	A2/A
21	Pay-fixed interest rate swap	Hedge of changes in cash flows on the GDB loan	17,365	10/16/2007	07/01/2031	3.5180	66.0% 1M LIBOR	Aaa/AA-
22	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2007 Series A3 bonds	14,925	10/16/2007	07/01/2029	3.5180	66.0% 1M LIBOR	Aaa/AA-
23	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2007 Series A bonds	14,915	10/16/2007	07/01/2029	3.5180	66.0% 1M LIBOR	Aaa/AA-
24	Pay-fixed interest rate swap	Hedge of changes in cash flows on the GDB loan	67,639	10/16/2007	07/01/2033	3.5180	66.0% 1M LIBOR	Aa3/A+
25	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2007 Series A (2,3,8,9) bonds	224,268	10/16/2007	07/01/2034	3.5180	66.0% 1M LIBOR	Aa3/A+
26	Pay-fixed interest rate swap	Hedge of changes in cash flows on the COFINA 2007 Series A bonds	136,000	07/31/2007	08/01/2057	4.9200	67.0% 3 M LIBOR + 0.93%	A2/A

LIBOR: London Interbank Offered Rate Index
SIFMA: Securities Industry and Financial Markets Association Index
CPI: Consumer Price Index

Risks

Credit Risk — The Commonwealth is exposed to credit risk on hedging derivative instruments that are in asset positions. When the fair value of a derivative contract is positive, the counterparty owes the Commonwealth, which creates a credit risk for the Commonwealth. When the fair value of the derivative contract is negative, the Commonwealth owes to the counterparty and, therefore, does not pose credit risk to the Commonwealth.

The Commonwealth has sought to limit its counterparty risk by contracting only with highly rated entities or requiring guarantees of the counterparty's obligations under the swap documents. In addition, to minimize its exposure to loss related to credit risk, it is the Commonwealth's policy to require counterparty collateral posting provisions in its hedging derivative instruments. These terms require collateralization of the fair value of hedging derivative instruments in asset position (net of the effect of applicable netting arrangements) in excess of certain agreed threshold should the counterparty's credit rating fall below the following:

The counterparty with respect to derivative instruments No. 3, 4, 5, and 6 (or its respective guarantor) is required to post collateral in excess of certain agreed threshold ($30.0 million) if its credit rating goes below A2 (Moody's) or A (Standard & Poor's). Each of the counterparties with respect to other derivative instruments is required to post collateral in excess of certain agreed thresholds (which range from $30.0 million to $50.0 million) if its credit rating goes below Aa3 (Moody's Investor Service) or AA- (Standard & Poor's). Collateral posted is to be in the form of cash or U.S. Treasury securities. The Commonwealth has never failed to access collateral when required.

It is the Commonwealth's policy to enter into netting arrangements whenever it has entered into more than one derivative instrument transaction with counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, closeout netting provisions permit the nondefaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the nondefaulting party.

At June 30, 2010, none of the hedging derivative instruments by counterparty was in an asset position. Thus, the Commonwealth had no aggregate counterparty credit exposure as of that date.

Interest Rate Risk — The Commonwealth is exposed to interest rate risk on its swaps. On its pay-fixed, receive-variable interest rate swap, as LIBOR or the Consumer Price Index decreases, the Commonwealth's net payment on the swaps increases.

Basis Risk — The Commonwealth is exposed to basis risk on most of its pay-fixed interest rate swaps because the variable-rate payments received by the Commonwealth on these hedging derivative instruments are based on a rate or index other than interest rates the Commonwealth pays on its hedged variable-rate debt, which is remarketed daily, weekly or monthly. Under the terms of its synthetic fixed rate swap transactions, the Commonwealth pays a variable rate on its bonds based on SIFMA or Prime Rate but receives a variable rate on the swaps based on a percentage of LIBOR.

Termination Risk — The Commonwealth or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. The Commonwealth is at risk that counterparty will terminate a swap at a time when the Commonwealth owes it a termination payment. The Commonwealth has mitigated this risk by specifying that the counterparty has the right to terminate only as a result of certain events, including: a payment default by the Commonwealth; other Commonwealth defaults which remain uncured for 30 days after notice; Commonwealth bankruptcy; insolvency of the Commonwealth (or similar events); or a downgrade of the Commonwealth's credit

ratings below Ba1 as issued by Moody's Investor Service or BB+ by Standard & Poor's for the majority of the derivative instruments. The derivative instruments that are insured by Assured Guaranty Municipal Corp., Assured Guaranty Corp. or MBIA Insurance Corporation (derivative instruments No. 1, 2, 10, 15 and 16) may not be terminated by the counterparty unless an Insurer Event has occurred (i.e., Insurer's credit ratings fall below A3 by Moody's Investor Service or A- by Standard & Poor's). If at the time of termination, a hedging derivative instrument is in a liability position, the Commonwealth would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements.

Counterparty Risk — The Commonwealth is at risk that a counterparty (or its guarantor) will not meet its obligations under the swap. If a counterparty were to default under its agreement when the counterparty would owe a termination payment to the Commonwealth, the Commonwealth may have to pay another entity to assume the position of the defaulting counterparty. The Commonwealth has sought to limit its counterparty risk by contracting only with highly rated entities or requiring guarantees of the counterparty's obligations under the swap documents.

Rollover Risk — The Commonwealth is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these hedging derivative instruments terminate, the Commonwealth will be reexposed to the risks being hedged by the hedging derivative instrument. Derivative instrument No.21 exposes the Commonwealth to rollover risk because the interest rate swap terminates prior to both the redemption date and the maturity date of the associated bonds.

Investment Derivative Instruments

The following table displays the terms of the Commonwealth's investment derivative instruments outstanding at June 30, 2010, along with the credit rating of the associated counterparty (amounts in thousands). Regarding derivative instruments where the counterparty is unrated, the rating provided is of the counterparty's guarantor.

Item	Type	Notional Amount	Effective Date	Maturity Date	Terms: Pays	Terms: Receives	Counterparty Credit Rating Moody's/ S&P
27	Basis swap	$ 1,273,778	07/10/2007	07/01/2035	SIFMA	67% 3M LIBOR + 0.4409%	A1/A
28	Basis swap	424,592	07/05/2007	07/01/2035	SIFMA	67% 3M LIBOR + .4409%	A2/A
29	Forward swap	29,165	07/01/2012	07/01/2031	3.8510 %	67% 1M LIBOR	Aaa/AA
30	Forward swap	40,000	07/01/2012	07/01/2031	3.7684	67% 1M LIBOR	Aaa/AA
31	Forward swap	453,500	02/01/2012	08/01/2040	3.9500	67% 3M LIBOR	A3/BBB
32	Forward swap	453,500	02/01/2012	08/01/2040	3.9500	67% 3M LIBOR	A2/A

The Commonwealth entered into the basis swaps to hedge the portion of the fair value of the underlying liabilities attributable to the relative value/basis risk between tax-exempt and taxable rates. Because of the tax-exemption, tax-exempt bonds trade at yields lower than taxable yields. At June 30, 2010 and 2009, management of the Commonwealth concluded that these basis swaps were not considered as effective hedge instruments under GASB Statement No. 53. In addition, the Commonwealth entered into the forward swaps in connection with the expected issuance of certain variable rate bonds. The recent U.S. financial market crisis has resulted in a significant reduction in the availability of credit/liquidity facilities to support variable rate bonds, and a related increase in the price of these facilities when they

can be obtained. As a result, the occurrence of this expected transaction is not deemed probable and, accordingly, these forward swap agreements have been classified as investment derivative instruments.

Risks

Credit Risk — The Commonwealth is exposed to credit risk on investment derivative instruments that are in asset positions. When the fair value of a derivative contract is positive, the counterparty owes the Commonwealth, which creates a credit risk for the Commonwealth. When the fair value of the derivative contract is negative, the Commonwealth owes to the counterparty and, therefore, does not pose credit risk to the Commonwealth.

The Commonwealth has sought to limit its counterparty risk by contracting only with highly rated entities or requiring guarantees of the counterparty's obligations under the swap documents. In addition, to minimize its exposure to loss related to credit risk, it is the Commonwealth's policy to require counterparty collateral posting provisions in its derivative instruments. These terms require collateralization of the fair value of investment derivative instruments in asset position (net of the effect of applicable netting arrangements) in excess of certain agreed thresholds (which range from $30.0 million to $50.0 million) if the credit rating of the counterparty goes below Aa3 (Moody's Investor Service) or AA- (Standard & Poor's). Collateral posted is to be in the form cash or U.S. Treasury securities. The Commonwealth has never failed to access collateral when required.

It is the Commonwealth's policy to enter into netting arrangements whenever it has entered into more than one derivative instrument transaction with counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, closeout netting provisions permit the nondefaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the non-defaulting party.

At June 30, 2010, none of the investment derivative instruments by counterparty was in an asset position. Thus, the Commonwealth had no aggregate counterparty credit exposure as of that date.

Interest Rate Risk — The Commonwealth is exposed to interest rate risk on its swaps. On its pay-fixed, receive-variable interest rate swap, as LIBOR decreases, the Commonwealth's net payment on the swap increases. On its basis swaps, whereby if LIBOR increases and SIFMA trades a higher percentage of LIBOR, the Commonwealth's net payment on the basis swap increases.

Counterparty Risk — The Commonwealth is at risk that a counterparty (or its guarantor) will not meet its obligations under the swap. If counterparty were to default under its agreement when the counterparty would owe a termination payment to the Commonwealth, the Commonwealth may have to pay another entity to assume the position of the defaulting counterparty. The Commonwealth has sought to limit its counterparty risk by contracting only with highly rated entities or requiring guarantees of the counterparty's obligations under the swap documents.

Termination risk: The Commonwealth or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. The Commonwealth is at risk that counterparty will terminate a swap at a time when the Commonwealth owes it a termination payment. The Commonwealth has mitigated this risk by specifying that the counterparty has the right to terminate only as a result of certain events, including: a payment default by the Commonwealth; other Commonwealth defaults which remain uncured for 30 days after notice; Commonwealth bankruptcy; insolvency of the Commonwealth (or similar events); or a downgrade of the Commonwealth's credit ratings below Ba1 as issued by Moody's Investor Service or BB+ by Standard & Poor's for the majority of the derivative instruments. The derivative instruments that are insured by Assured Guaranty

Municipal Corp., Assured Guaranty Corp. or MBIA Insurance Corporation (derivative instruments No. 28, and 29) may not be terminated by the counterparty unless an Insurer Event has occurred (i.e., Insurer's credit ratings fall below A3 by Moody's Investor Service or A- by Standard & Poor's). If at the time of termination, a hedging derivative instrument is in a liability position, the Commonwealth would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements.

Collateral Posting Requirements and Contingencies

All of the Commonwealth's derivative instruments, except for the Commonwealth's insured derivative swaps, and the COFINA's derivative instrument No. 32 include provisions that require the Commonwealth and COFINA to post collateral in excess of certain agreed thresholds (that range from $30.0 million to $50.0 million) in the event their credit rating falls below Baa1 (Moody's Investor Service) or BBB+ (Standard & Poor's). If the Commonwealth or the COFINA's credit rating falls below Baa3 (Moody's) or BBB- (Standard & Poor's), they are required to post collateral of 100% of its payable position. The collateral posted is to be in the form of cash, U.S. Treasury securities, or specified Agency securities in the amount equal to in the form of cash or greater to in the form of securities of the fair value of derivative instruments in liability positions net of the effect of applicable netting arrangements and applicable thresholds. If the Commonwealth or COFINA does not post collateral, the derivative instrument may be terminated by the counterparty.

At June 30, 2010, the aggregate fair value of all the Commonwealth's uninsured derivative instruments with these collateral posting provisions was $(234.3) million. The Commonwealth's credit rating as of June 30, 2010 was A3 (Moody's) and BBB- (Standard & Poor's). Since the Commonwealth triggered the collateral posting requirements at June 30, 2010, it was required to post $85.7 million in collateral to its counterparties based on posting cash. At June 30, 2010, the Commonwealth posted $75.0 million in cash collateral to its counterparties. The shortage of $10.7 million in the required posting collateral was covered the next business day.

At June 30, 2010, the aggregate fair value of the COFINA's derivative instrument with this collateral posting provision (derivative instrument No. 32) was $(98.2) million. If the collateral posting requirement was triggered at June 30, 2010, COFINA would be required to post $48.2 million in collateral to its counterparty based on posting cash. The COFINA's credit rating as of June 30, 2010 was A1 (Moody's) and A+ (Standard & Poor's); therefore, no collateral has been posted as of that date.

24. SUBSEQUENT EVENTS

Primary Government — On December 1, 2009, the Governor signed into law Act No. 161, which overhauls the existing permitting and licensing process in Puerto Rico in order to provide for a leaner and more efficient process that fosters economic development. In the short term, this restructuring is focused on eliminating the significant backlog of unprocessed permits that are currently in the pipeline of various government agencies. Longer term, this law seeks to significantly reduce the number of inter-agency processes and transactions currently required by creating a centralized, client-focused system that simplifies and shortens the permitting process for applicants. On December 1, 2010, a new permitting agency created under Act No. 161, which centralized permitting processes previously carried out by various agencies, commenced operations.

On July 19, 2010, the Governor signed Acts No. 82 and 83, providing for, among other things, the adoption of a new energy policy, which is critical for Puerto Rico's competitiveness. Act No. 82 focuses on reducing Puerto Rico's dependence on fossil fuels, particularly oil, through the promotion of diverse, renewable-energy technologies. Act No. 83 created a green energy incentives program to promote the development of renewable energy projects as well as a Renewable Portfolio Standards Program. These

initiatives are expected to address energy prices in Puerto Rico and provide a means of attracting investment in the energy sector.

On July 7, 2010, the Board of Directors of PBA, a blended component unit, authorized the Executive Director to obtain a loan from the Government Development Bank for Puerto Rico to refinance the interest component of certain outstanding revenue and revenue refunding bonds. PBA is authorized to accept the terms and conditions of a loan in a principal amount not to exceed $36,944,781 to pay the interest component coming due during the twelve months after the date of the first drawing under the Loan Agreement. The loan shall mature on such date as GDB may determine but in no event later than June 30, 2011.

On August 16, 2010, the Board of Directors authorized the Executive Director to request and obtain a line of credit for approximately $93,000,000 for construction projects development.

On September 1, 2010, the Board of Directors authorized the Executive Director to accept an increase of $12,314,927 to the loan of $36,944,781, such that the aggregate amount of the loan will not exceed $49,259,708. The proceeds of the loan shall be used to finance the interest of certain outstanding revenue bonds until such time as PBA issues revenue refunding bonds to refund such interest. The term of the loan, including the maturity date, rates of interest thereon and source and method of payment shall remain the same as set forth in the Loan Agreement, previously approved by the Board of Directors.

On September 1, 2010, the Board of Directors authorized the Executive Director to accept a loan from the Government Development Bank for Puerto Rico in the amount of $160,000,000. PBA in conjunction with the Puerto Rico Public Partnerships Authority, the Puerto Rico Department of Education, the Department of Transportation and Public Works and the Puerto Rico Infrastructure Financing Authority, is undertaking a significant expansive modernization project for the Puerto Rico's Public Schools, known as the Schools for the 21st Century. The proceeds of the loan shall be used to finance project costs under the Inter-Departmental Agreement, until such time as PBA issues the Qualified School Construction Bonds (the "QSCBs").

On September 24, 2010, the Treasury Department transferred $60.3 million to PBA for the payment of debts from agencies of the Commonwealth related to rent due as of June 30, 2009.

On July 2, 2010, the Government enacted Act No. 70 (Act No. 70), which is designed to reduce government expenditures by providing an early retirement window for eligible employees (who opted to retire by January 14, 2011 or during such other period that may be established by a designated committee) under a formula that results in a positive actuarial impact for the government's Retirement Systems. Act. No. 70 establishes that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employee's annual monthly salary. Economic incentives are available to all eligible employees and will consist of a lump-sum payment ranging from one-month to six-month salary. Additionally, all employees that choose to participate in this program are eligible to receive health plan coverage up to 12 months in a health plan selected by the Administrator of the Puerto Rico Government Employees and Judiciary Retirement Systems Administration (the "Administrator"). Eligible employees may elect to participate in this program within 30 days after a date to be determined by the Administrator, no later than December 31, 2012. Approximately 4,000 employees opted for early retirement under Act 70.

On September 2, 2010, the Governor signed Act No. 132. Act No. 132, which was designed primarily to stimulate the Puerto Rico real estate market, which in recent years has been suffering from lower sales, rising inventories, falling median prices and increased foreclosure rates. Pursuant to the provisions of Act No. 132, the Government has provided tax and transaction fee incentives to both purchasers and

sellers of new and existing residential properties, as well as commercial properties with sale prices that do not exceed $3 million. The incentives provided under Act No. 132 will be available from September 1, 2010 to June 30, 2011. Certain permanent incentives are also available for rental housing.

In an effort to maintain the local rum industry and preserve or increase the amount of federal excise taxes on rum shipments returned to Puerto Rico under the cover-over program, the Governor of Puerto Rico signed Act No. 178 of December 1, 2010 (Act 178), which increases from 10% to 25% the portion of the monies from the federal excise tax that the Government of Puerto Rico may invest to provide incentives to and promote the Puerto Rican rum industry. The law also authorizes the Governor of Puerto Rico to increase this percentage up to 46% after December 31, 2011, through an Executive Order. In order to promote the Puerto Rican rum industry in general, the amount received from such refund will be transferred to a special account of the General Fund, which may be used for marketing, production and infrastructure investment incentives. Effective January 1, 2011, Act No. 1 replaced Act 178 and contains identical provisions.

The Government of Puerto Rico is in discussions with certain rum producers to provide them a series of subsidies and incentives, as permitted under Act No. 1, in order to promote the production of rum in Puerto Rico. If such discussions culminate in definitive agreements, this would allow such companies to benefit from the cover-over program rebate and would promote and encourage the export of rum produced in Puerto Rico.

The tax reform consists of two phases focused on providing tax relief to individuals and corporations, promoting economic development and job creation, simplifying the tax system and reducing tax evasion through enhanced tax compliance measures. The first phase, enacted as Act No. 171 of November 15, 2010, is expected to provide individual and corporate taxpayers with significant savings for taxable year 2010. The second phase, enacted as Act No. 1 of January 31, 2011 (Act No. 1), is projected to provide individual and corporate taxpayers significant savings for the next six taxable years, commencing in taxable year 2011. Consistent with the objective of maintaining the path towards fiscal stability, the tax relief provisions applicable to individuals and corporations for taxable years 2014 through 2016 become effective only if (i) OMB certifies that the administration's expense control target has been met, (ii) the Treasury Department certifies that General Fund revenue target has been met and (iii) the Planning Board certifies a year-over-year target increase in gross domestic product.

On September 28, 2010, the Treasury Department signed an agreement with Evertec, Inc. and Softek for the implementation of a new point of sale system to strengthen its sales tax enforcement efforts (the "IVU Loto"). The system is designed to: (i) transmit daily to the Treasury Department information on all sales tax transactions; (ii) reconcile transmitted transactional information with information reported by merchants; (iii) provide wireless transmission devices for use by street vendors; and (iv) capture a greater percentage of cash sales through the implementation of a special lottery using sales receipts as lottery tickets. The Treasury Department will implement this new point of sale system in two phases. The first phase entails a pilot program in which 200 businesses are expected to participate. Once the pilot program has concluded, a business certification program will take place followed by full scale implementation expected to begin in January 2011. The implementation of this new system is expected to increase sales tax collections by $100 million during the first year; $200 million during the second year and $400 million during the third year.

The IVU Loto pilot program started on December 1, 2010. Two hundred merchants in the municipality of Ponce were selected to participate in the program. On January 11, 2011, merchants filed their monthly sales and use tax returns for the month of December and the Treasury Department is in the process of comparing sales and use tax withholdings reported by the IVU Loto system with the information filed by merchants that participated in the pilot program. The Treasury Department adopted regulations on

December 14, 2010 requiring that all qualifying merchants acquire and use an IVU Loto device on or prior to April 30, 2011.

On July 2, 2010, the Commonwealth approved Act No. 71 of July 2, 2010 (Act 71). Act No. 71 established a 120 day amnesty program available from August 16, 2010 until December 13, 2010, in which taxpayers may pay outstanding property tax debts with a discount of 100% of any penalties, interest and surcharges (the "Program"). Pursuant to Act 71 and CRIM's Administrative Order No. 2010-05, the Program is available with respect to taxable year 2008-2009 and previous years in the case of real property taxes, and for taxable year 2008 and previous years with respect to personal property taxes. To benefit from the Program the taxpayer must: (i) have paid property taxes for fiscal year 2009-2010 and the first semester of 2010-2011 in the case of real property taxes, and tax year 2009 in the case of personal property taxes; and (ii) certify to the CRIM that it will pay real and personal property taxes related to fiscal year 2010-2011.

On November 15, 2010, the Commonwealth approved Act No. 172, which establishes that taxpayers which apply for a voluntary disclosure program on or before April 15, 2011 will be eligible for a 20% flat income tax rate on the gross amounts reported and will not be subject to interest, surcharges and penalty fees. This legislation extends the benefits of the program to municipal license tax declarations for which taxpayers will pay principal on the municipal tax determined, but will not be subject to interest, surcharges and penalty fees. Declarations by taxpayers must relate to tax years commenced after July 1, 2003 and ending on or before December 31, 2009, and payment of tax determined under the program must be paid no later than June 30, 2011.

On April 19, 2010, Moody's Investors Service ("Moody's") announced the results of the recalibration of certain U.S. municipal bond issues and issuers in order to enhance the comparability of credit ratings across its portfolio of rated securities. As a result of this recalibration, the Commonwealth's general obligation debt is now rated "A3" by Moody's which is three categories above the previous "Baa3" rating. On August 10, 2010, Moody's assigned a negative outlook to the Commonwealth's general obligation debt and related credits primarily as a result of the low funding levels of the Commonwealth's Retirement Systems.

On November 29, 2010, Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), confirmed its "BBB–" rating on the Commonwealth's general obligation and appropriation debt and changed the outlook on general obligation debt to positive from stable. The outlook on the Commonwealth's appropriation rating remains stable. In taking this rating action, S&P stated that while the ratings continue to reflect their opinion on the Commonwealth's history of chronic budget deficits, the revision in the outlook of the Commonwealth's general obligation debt was based on their view as to the recent implementation of expenditure controls and revenue enhancement measures that they believe could help restore budget balance within the next two years.

On March 7, 2011, S&P raised its general obligation rating on the Commonwealth of Puerto Rico to "BBB" from "BBB-" with a stable outlook. S&P have also affirmed the "BBB-" rating with a stable outlook on the Commonwealth's appropriation debt. In addition, S&P assigned its "BBB" rating and stable outlook to the Commonwealth Series 2011C general obligation public improvement refunding bonds. The upgrade is based on their view of the Commonwealth's recent revenue performance and continued efforts to achieve fiscal and budgetary balance.

On January 19, 2011, Fitch, Inc. ("Fitch") assigned a "BBB+" rating to the Commonwealth's general obligation and appropriation debt with a stable outlook. In assigning the rating, Fitch stated that, while it recognized the Commonwealth's historic budget deficits, overestimation of revenues, reliance on borrowings to meet budgetary gaps, and the low level of pension funding, the successful implementation

of the dramatic steps taken by the government to restructure fiscal operations and stimulate the economy was a positive credit factor.

On February 10, 2011, the Commonwealth issued Public Improvement Refunding Bonds, Series 2011 A amounting to $356,520,000 and terminated approximately $231 million of synthetic fixed rate swaps associated to the general obligation bonds refunded by the Series 2011A Bonds. The proceeds were used to provide funds to (i) refund a portion of the principal (but not the interest) payable on July 1, 2011 on certain general obligation bonds and notes of the Commonwealth, (ii) refund, in whole or in part, certain other general obligation bonds and notes of the Commonwealth, (iii) repay certain GDB lines of credit used to deposit moneys in the Redemption Fund to cover a portion of the principal (but not the interest) payable on July 1, 2011 on certain general obligation bonds and notes of the Commonwealth, (iv) fund termination payments under certain interest rate swap agreements in connection with the refunding of the Refunded Bonds, and (v) pay the cost of issuance of the Bonds.

On March 2, 2011, the Commonwealth issued Public Improvement Refunding Bonds, Series 2011 B amounting to $274,550,000. The Series 2011B Bonds were directly purchased by an institutional investor and the proceeds were used to refund on a current basis, the Commonwealth's Public Improvement Refunding Bonds, Series 2007 A-8, Series 2007 A-9 and Series 2008 B.

On March 10, 2011, the Commonwealth issued Public Improvement Refunding Bonds, Series 2011 C amounting to $442,015,000. The net proceeds were issued to provide funds to repay advances made to the Commonwealth under a Government Development Bank for Puerto Rico line of credit used to make deposits to the Commonwealth's Redemption Fund for the repayment of interest due during fiscal year 2011 on certain general obligation bonds and notes, pay capitalized interest on the Bonds, and pay the cost of issuance of the Bonds.

Component Units

(a) GDB

GDB Senior Notes 2010 — On July 29, 2010, GDB issued $1.6 billion of Senior Notes, 2010 Series A and B. The Senior Notes, 2010 Series A consist of terms notes with a total principal balance of $1,448,741,000 maturing on various dates from August 1, 2011 to August 1, 2020 and bearing fixed interest rates ranging from 2.00% to 5.50%. The Senior Notes, 2010 Series A are subject to Redemption prior to maturity at the option of GDB, either in whole or in part, at a price equal to the principal amount of be redeemed plus accrued interest to the date of redemption, without premium on August 1, 2011 and on any day thereafter, subject to at least 20 days prior notice. Interest on the Senior Notes, 2010 Series A will be payable monthly on the first day of each month, commencing on September 1, 2010. GDB will use the proceeds for general corporate purposes, including, but not limited to redeeming other notes issued by GDB, increasing its investment portfolio, making loans to, and purchasing obligations of, the Commonwealth and its public corporations, instrumentalities and municipalities, and repaying certain outstanding debt. In particular, GDB expects to use a portion of the proceeds of the Senior Notes, 2010 Series A to redeem some of the Senior Notes, 2008 Series A and B and Senior Notes, 2009 Series A.

The Senior Notes, 2010 Series B consist of a term note with a principal balance of $151,259,000 maturing on August 1, 2025 and bearing a fixed interest rate of 5.75%. The Senior Notes, 2010 Series B are subject to redemption prior to maturity at the option of GDB, either in whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest to the date of redemption, without premium on August 1, 2011 and on any day thereafter, subject to at least 20 days prior notice. Interest on the Senior Notes, 2010 Series B, will be payable on November 1,

2010 and quarterly thereafter. GDB will use the proceeds for making loans to the Commonwealth and its public corporations, instrumentalities and municipalities to be used to finance the capital expenditures. The Senior Notes 2010, Series B were issued as “Build America Bonds”. Upon compliance with certain requirements of the United States Internal Revenue Code, GDB will receive a subsidy payment from the federal government equal to 35% of the amount of each interest payment on the Senior Notes, 2010 Series B.

On August 24, 2010, GDB issued approximately $1.2 billion of Senior Notes, 2010 Series C and D. The Senior Notes, 2010 Series C consist of term notes with a principal balance of $1,086,478,000 maturing on various dates from August 1, 2012 to August 1, 2019 and bearing fixed interest rates ranging from 3.00% and 5.40%. The Senior Notes, 2010 Series C are subject to redemption prior to maturity at the option of GDB, either in whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest to the date of redemption, without premium on September 1, 2011 and on any date thereafter, subject to at least 20 days prior notice. Interest will be payable monthly on the first day of each month, commencing on October 1, 2010. GDB will use the proceeds for general corporate purposes, including, but not limited to, redeeming other notes issued by GDB, increasing its investment portfolio, making loans to, and purchasing obligations of the Commonwealth and its public corporations, instrumentalities and municipalities, and repaying certain outside debt.

The Senior Notes, 2010 Series D consist of a term note with a principal balance of $96,411,000 maturing on August 1, 2025 and bearing a fixed interest rate of 5.75%. The Senior Notes, 2010 Series D are subject to redemption prior to maturity date at the option of GDB, either in whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest to the date of redemption, without premium on September 1, 2011 and on any day thereafter, subject to at least 20 days prior notice. Interest on the Senior Notes, 2010 Series D will be payable on November 1, 2010 and quarterly thereafter. GDB will use the proceeds for making loans to the Commonwealth and its public corporations, instrumentalities and municipalities to be used to finance capital expenditures. The Senior Notes, 2010 Series D were issued as “Build America Bonds”. Upon compliance with certain requirements of the United States Internal Revenue Code, GDB will receive a subsidy payment from the federal government equal to 35% of the amount of each interest payment on the senior Notes, 2010 Series D.

Popular, Inc. Note — On July 23, 2010, Popular Inc. repurchased the floating rate notes it has issued to GDB at a price of 109% of the outstanding principal amount plus accrued interest. The total amount received was $110,228,710 including principal of $100 million, premium of $9 million and accrued interest of approximately $1.2 million.

HOME Program — Effective July 1, 2010, the Housing Finance Authority was certified by the HUD to administer the HOME Investment Partnership (HOME) Program. The objectives of the HOME program include: (1) expanding the supply of decent and affordable housing, particularly housing for low and very low income Americans; (2) strengthening the abilities of state and local governments to design and implement strategies for achieving adequate supplies of decent, affordable housing; (3) providing financial and technical assistance to participating jurisdictions, including the development of model programs for affordable low income housing; and (4) extending and strengthening partnerships among all levels of government and the private sector, including for-profit and nonprofit organizations, in the production and operating of affordable housing.

(b) PRHIA

Effective October 1, 2010, in compliance with the Commonwealth strategies, PRHIA developed a new integrated health model named "MI SALUD" with the following changes from prior health administration program:

a. Set up a standard premium per region as established by the Administration.

b. Eliminate referrals when the beneficiary needs the service of a specialist.

c. Better access to prescribed medicines without the authorization of the primary healthcare provider.

d. Extended hours for healthcare providers of basic services.

e. Tele-emergency services available 24 hours.

f. Integration of the physical health and mental health in one place.

g. The risk of the primary healthcare provider in relation to medicines, emergency and preventive health test was decreased and transferred to the health insurance companies.

h. Increased coverage to include the middle class working force.

i. Set up a ceiling in relation to administrative expenses and gains of the health insurance companies.

Effective November 23, 2010, the Legislature amended Act No. 72 authorizing PRHIA to incur in obligations up to $187 million in order to pay outstanding debts incurred prior to July 1, 2010.

Reorganization Plan No. 3, created under Act. No. 182 of December 17, 2009, amended Act No. 95 of June 29, 1963 to transfer to PRHIA the faculty to negotiate, contract, and procure health benefits for the governmental employees.

(c) PRHTA

On July 1, 2010, PRHTA issued $253,670,000 of Highway Revenue Refunding Bonds (Series AA) and $44,275,000 of Transportation Revenue Refunding Bonds (Series H) for the purpose of converting the interest rate mode from a term rate to a fixed rate. The Series AA which consists of $188,395,000 aggregate principal amount of Series AA-1 Bonds and $65,275,000 aggregate principal amount of Series AA-2 Bonds bear interest at a fixed rate of 4.95% and 5.30% respectively, and are due on July 1, 2026 and 2035, respectively. The Series H bears interest at a fixed rate of 5.45% and is due on July 1, 2035.

On July 13, 2010, PRHTA entered into a new nonrevolving line of credit with GDB for the amount of $63 million for the settlement of various legal cases. This line of credit matures on August 30, 2012 and bears interest daily at variable rate of interest per annum equal to Prime Rate plus 150 basis points. The interest rate shall not exceed twelve (12) percent and shall not be less than six (6) percent.

On August 27, 2010, PRHTA entered into a nonrevolving line of credit with GDB for the amount of $45 million for the exclusive purpose of paying collateral posting requirements on the fixed payer

swaps associated to PRHTA Floating Rate Notes and to cover costs related to this financing. This line of credit matures on August 27, 2011 and bears interest daily at variable rate of interest per annum equal to Prime Rate plus 150 basis points. The interest rate shall not exceed twelve (12) percent and shall not be less than six (6) percent.

On August 27, 2010, PRHTA entered into a nonrevolving line of credit for the amount of $118.3 million, for the purpose of paying certain costs incurred or to be incurred in the acquisition, construction, equipping, installation and development of certain capital improvements, and paying certain costs associated with the automatization of the PRHTA’s toll collection system. This line of credit matures on August 27, 2013 and bear interest daily at variable rate of interest per annum equal to Prime Rate plus 150 basis points. The interest rate shall not exceed twelve (12) percent and shall not be less than six (6) percent.

On November 8, 2010, PRHTA entered into a new agreement with GDB for the amount of $83.8 million to increase the $45 million nonrevolving line of credit agreed on August 27, 2010, with the same loan terms.

On January 26, 2011, PRHTA received an extension of its lines of credit amounting to $122.1 million, $25 million, $15 million, and $78.3 million, which were due on June 30, 2011. The maturity date of these lines of credit was extended to August 31, 2012.

(d) PREPA

Via Verde Pipeline

PREPA plans to convert existing oil-fired facilities to allow them to use either oil or natural gas and to build a pipeline system to be known as "Vía Verde", to transport natural gas to several of the Authority’s generating plants. In order to achieve this, during December 2010 PREPA issued bonds pursuant to Section 208 of the Trust Agreement to finance a portion of its capital improvement program and a portion of the construction of the Vía Verde natural gas pipeline.

On July 29, 2010, PREPA established with Citibank, N.A. a $200 million line of credit, with a maturity date of June 2011, for the purchase of fuel oil and energy.

On September 2010, pursuant to the Trust Agreement, PREPA issued Power Revenue Refunding, Series DDD, with a par amount of $218,225,000 to provide funds to refund certain series with redemption dates that range between November 15, 2010 and January 1, 2011.

On November 5, 2010, PREPA entered into a $50 million loan agreement with First Bank to finance initial disbursements related to Via Verde Project. This loan will be paid off with the proceeds of the bonds issuance expected on December 2010.

On December 2010, PREPA issued Series EEE amounting $355.7 million to funding portion of its capital improvement program, to repay the First Bank loan and to finance portion of the construction costs of the Via Verde natural gas pipeline.

Energy Diversification

On July 10, 2010, the Commonwealth enacted Act No. 82, known as the Act for a Public Policy for Energy Diversification through Sustainable and Alternative Renewable Energy. Act No. 82 requires PREPA to meet prescribed targets of energy generation from renewable sources by specified dates,

as follows: 12% of energy sales from renewable energy production by 2015 and 15% of energy sales from renewable energy production by 2020, with a requirement to establish a plan to reach 20% of energy sales from renewable energy production by 2035. Act No. 82 also establishes Renewable Energy Certificates as a legally recognized asset that can be purchased, sold, traded and transferred separately from electric power and used to meet the renewable energy targets and creates a Renewable Energy Commission with the power to implement and supervise compliance with Act No. 82. Failure to comply with the renewable energy targets could result in the imposition of fines. Concurrently with the enactment of Act No. 82, the Commonwealth enacted Act No. 83 of July 19, 2010, known as the Green Energy Incentives Act, which provides incentives to promote the development of renewable energy projects. PREPA is taking measures to comply with Act No. 82, such as entering into power purchase agreements with developers of renewable energy projects, but it is too early to determine whether PREPA will be able to comply with the requirements of Act No. 82 and what impact Act No. 82 and Act No. 83 will have on PREPA.

Wheeling

Act No. 73 provides that PREPA shall identify and implement a system that permits the operation of a wheeling service mechanism by January 2, 2010. Act No. 73 also provides for the creation of a Committee of Wheeling, which Committee is responsible for the implementation of the wheeling system. The Committee of Wheeling engaged Christensen Associates Energy Consulting, LLC, based in Wisconsin, to prepare the Puerto Rico Wheeling System Implementation Plan Study that was delivered to PREPA in December 2009. This study, which included various regulatory proposals regarding the establishment of the system and the applicable tariffs, was reviewed by PREPA and substantial changes were made.

Public Hearings were held on June 1 and 2, 2010 to consider the following documents: Wheeling System Tariffs, Wheeling Transmission Regulation and Wheeling Interconnection Procedure. The public hearing examiner submitted a final report to PREPA's Governing Board on June 30, 2010. In the report, the examiner recommends approval of the Wheeling Transmission Regulation and Wheeling Interconnection Procedure, but rejected approval of the Wheeling System Tariffs based on lack of information to the public. The Tariffs have to be submitted to the public hearings procedure again with enough time for public evaluation.

(e) EDB

On July 20, 2010, EDB accepted an offer from the issuer of $75 million floating rate notes (the "Notes") due on September 12, 2010 to redeem the Notes at 109%. As a result, EDB recorded a gain of approximately $7.7 million on this investment existing at June 30, 2010.

(f) ASDA

Effective July 29, 2010, under Reorganization Plan No. 7 of 2010, ASDA ceased to exist and its funds, materials, and employees were transferred to the "Administración para el Desarrollo de Empresas Agrícolas (ADEA)". Also, most of the funds, materials, and employees of the "Corporación de Desarrollo Rural" were also transferred to ADEA. ADEA will continue to operate under the Puerto Rico Department of Agricultures' umbrella.

(g) PRTEC

On July 1, 2010 and July 27, 2010, collateralized promissory notes for $72 million and $136 million, respectively, were issued. On July 9, 2010, collateralized promissory notes for $137 million were called.

(h) PRPA

On July 21, 2010, the PRPA amended and restated a credit agreement with Banco Bilbao Vizcaya Argentaria Puerto Rico (BBVAPR) for an aggregate amount of $83,721,083. Under the Amended and Restated Credit Agreement dated July 21, 2010, the PRPA will commence monthly payments of principal of $768,083, plus interest. A final installment of $74,504,084 plus accrued and unpaid interest will be due on June 30, 2011, the Termination Date. Concurrently, on July 21, 2010, the PRPA and GDB amended the Letter of Credit Disbursement and Reimbursement Agreement in which the GDB agreed to issue a Letter of Credit in the amount of $92,087,399 in favor of BBVAPR as security for the PRPA's repayment obligation under a certain amended and restated credit agreement, dated July 21, 2010, between the PRPA and BBVAPR.

The Fiscal Oversight Agreement, dated July 1, 2009, between the GDB and PRPA was amended on August 23, 2010 to in order to provide for streamlined monthly financial and operational reporting.

On December 3, 2010, PRPA obtained a refunding related to the borrowings under a line of credit agreement with Wells Fargo for $71,898,000. Under the term loan agreement dated December 3, 2010, PRPA will commence payment of annual principal installments, with each principal installment to be in an amount of $4,493,625 per installment plus interest, payable on each July 1 of each year commencing on July 1, 2011, with a final installment in the amount of all principal payable on April 30, 2012. Also, on December 1, 2010, PRPA and Wells Fargo Bank entered in a Collateral Security Agreement granting a security interest in favor of Wells Fargo Bank in the accounts receivable constituting PFC revenues and the proceeds thereof deposited in specified bank accounts and to pledge and assign to Wells Fargo Bank each of PRPA's rights in and to the aforesaid accounts receivable and deposit accounts, as collateral security for all obligations of PRPA under the term loan agreement dated December 3, 2010. Additionally, on December 3, 2010, PRPA and GDB entered into a Letter of Credit and Reimbursement Agreement in which GDB agreed to issue a letter of credit in the amount of $73,168,198 in favor of Wells Fargo Bank as security for the PRPA's repayment obligation under a certain term loan agreement dated December 3, 2010, between PRPA and Wells Fargo Bank.

(i) PRCHE

On July 26, 2010, the Governor of Puerto Rico signed the Reorganization Plan number one (No.1) for the PRCHE, under Act No. 182 of December 17, 2009 known as "Act of Reorganization and Modernization of the Executive Branch of the Government of Puerto Rico of 2009". The Plan has the purpose of merging the Council of General Education of Puerto Rico with PRCHE. A new organization will be created, and all the assets and liabilities of the PRCHE will be transferred and assumed during the merger.

(j) PRIFA

On September 18, 2010, PRIFA transferred completed construction projects for the celebration of the XXI Central American & Caribbean Games amounting to approximately $200 million to the Puerto Rico Recreation and Sports Department.

In October 2010, PRIFA entered into a memorandum of understanding with Puerto Rico Public-Private Partnerships Authority, Puerto Rico Public Buildings Authority, Puerto Rico Department of Education, Puerto Rico Department of Transportation and Public Works ("DTOP", in its Spanish acronym), and GDB for the administration of the Schools for the 21st Century Program (the "21st Century Program"). The 21st Century Program comprise of the modernization of approximately ninety-five (95) public schools and the construction five (5) new public schools in Puerto Rico. The 21st Century Program will positively affect schools covering all academic levels and will impact approximately 50,000 students. Total investment under the Program will approximate $756 million.

(k) UPR

To address budgetary deficit issues, on June 30, 2010, the Board of Trustees of the UPR established a "Stabilization Fee" to be charged to all students in addition to tuition charges and other fees already in place in the UPR. The Stabilization Fee amounts to $400 per student per semester with the expectation of increasing revenues upwards of $40 million per year. This stabilization fee has no set termination date.

In November 2010 by virtue of Law No. 176, as amended by Law No. 46 of April 2011, the Government of Puerto Rico has committed to transfer 10% of the Additional Lottery's net annual income with a guaranteed minimum amount of $30 million per academic year, for the creation of a Special Scholarship Fund for the UPR. The purpose of the fund is to provide financial aid to graduate and undergraduate students. The fund will be administered by the UPR.

In October 2010, the UPR obtained a $100 million line of credit facility with the GDB for working capital purposes during the 2010-2011 academic year. The line of credit is collateralized by the UPR's accounts receivable from the Commonwealth of Puerto Rico and its agencies as well as by the Commonwealth income guaranteed appropriations under Act No. 2 of January 20, 1966, as amended.

In April 2011, the UPR settled with the Commonwealth the amounts Due from Commonwealth for $18,598,441. The UPR will receive the amount during fiscal year 2012.

* * * * * *

REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF FUNDING PROGRESS — RETIREMENT SYSTEMS
JUNE 30, 2010

Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	AAL	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2010	$1,664,991	$19,501,761	$17,836,770	8.5 %	$3,818,332	467.1 %
June 30, 2009	1,842,143	18,943,586	17,101,443	9.7	4,292,552	398.4
June 30, 2007	2,891,501	16,769,512	13,878,011	17.2	4,246,409	326.8

The Commonwealth of Puerto Rico Judiciary Retirement System (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	AAL	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2010	$55,410	$338,195	$282,785	16.4 %	$32,061	882.0 %
June 30, 2009	50,566	323,928	273,362	15.6	30,587	893.7
June, 30 2007	81,473	258,577	177,104	31.5	31,256	566.6

Puerto Rico System of Annuities and Pensions for Teachers (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	AAL	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Junio 30, 2010	$2,222,000	$9,280,000	$7,058,000	24 %	$1,370,000	515.2 %
June 30, 2009	2,158,000	8,722,000	6,564,000	25	1,418,000	462.9
June 30, 2007	3,163,000	7,756,000	4,593,000	41	1,370,000	335.3

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF FUNDING PROGRESS — POSTEMPLOYMENT HEALTHCARE BENEFITS
JUNE 30, 2010

Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	AAL	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2010	$ -	$1,646,148	$1,646,148	- %	$3,818,332	43.1 %
June 30, 2009	-	1,633,159	1,633,159	-	4,292,552	38.0

The Commonwealth of Puerto Rico Judiciary Retirement System (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	AAL	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2010	$ -	$5,808	$5,808	- %	$32,061	18.1 %
June 30, 2009	-	5,643	5,643	-	30,587	18.5

Puerto Rico System of Annuities and Pensions for Teachers (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	AAL	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2010	$ -	$694,230	$694,230	- %	$1,370,344	50.7 %
June 30, 2009	-	750,382	750,382	-	1,418,304	52.9

See accompanying independent auditors' report.

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES

GENERAL FUND

The general fund is the primary operating fund of the Commonwealth. The general fund is used to account for resources traditionally associated with government, which are not required legally or by sound financial management to be accounted for in another fund. Included are transactions for services such as general government, public safety, health, public housing and welfare, education, and economic development. Following is the supplemental schedule of expenditures — budget and actual — general fund.

COMMONWEALTH OF PUERTO RICO

SUPPLEMENTAL SCHEDULE OF EXPENDITURES BY AGENCY — BUDGET AND ACTUAL BUDGET BASIS — GENERAL FUND
YEAR ENDED JUNE 30, 2010
(In thousands)

	Original Budget	Amended Budget	Actual
EXPENDITURES:			
Current:			
General government:			
Senate of Puerto Rico	$ 42,887	$ 42,887	$ 38,536
House of Representatives of Puerto Rico	47,025	47,025	45,876
Comptroller’s Office	43,000	43,000	42,602
Governor’s Office	17,870	24,056	22,820
Office of Management and Budget	18,230	20,788	58,854
Planning Board	16,445	12,472	12,819
Constructions and Land Subdivisions Appeals Board	1,946	1,019	992
Department of State	11,682	10,218	7,883
Department of the Treasury	242,459	216,763	676,630
Central Office of Personnel Administration	7,832	5,739	5,641
Commonwealth Elections Commission	36,136	36,136	34,730
Federal Affairs Administration	4,507	4,514	4,441
General Services Administration	8,521	664	12,321
Municipal Complaints Hearing Commission	5,929	4,472	4,199
Civil Rights Commission	1,193	1,193	1,193
Office of the Citizen’s Ombudsman	5,376	5,376	5,272
Apellative Board of the Personnel System Administration	1,607	1,475	1,348
Rules and Permits Administration	18,137	9,038	5,595
Commonwealth’s Commission to Settle Municipal Complaints	320	187	102
Commissions for the Public Work Relations	1,852	2,323	2,345
Government Ethics Board	10,290	10,290	10,290
Legislative Affairs Office	12,172	12,172	11,768
Office of the Superintendent of the Capitol	10,980	14,980	14,984
Comptroller’s Special Reports Joint Commission	691	691	691
Legislative Donation Commission	20,767	20,767	907
Coordination Office for Special Communities of Puerto Rico	23,005	6,714	6,357
Puerto Rico Statistics Institute	977	977	977
Corporation “Enlace” Caño Martín Peña	1,386	1,386	1,386
Information and Technology Communication Office	19,423	19,423	19,921
Government Ethics Board	710	710	-
Employees’ Retirement System of the Government of the Commonwealth of Puerto Rico	236,893	236,893	238,670
Puerto Rico System of Annuities and Pensions for Teachers	76,733	76,733	76,733
Contributions to Political Parties	450	450	450
Total general government	947,431	891,531	1,367,333
Public Safety:			
Puerto Rico General Court of Justice	384,676	385,052	368,789
Civil Defense	9,583	8,294	6,495
Commission of Investigation, Processing and Appeals Board	1,198	886	507
Department of Justice	156,803	154,632	160,639
Puerto Rico Police Department	702,278	857,264	777,792
Puerto Rico Firefighters Corps	70,736	77,717	65,421
Puerto Rico National Guard	9,794	54,496	19,686
Public Service Commission	19,577	9,366	8,701
Consumer Affairs Department	19,026	15,678	12,344
Juvenile Institutions Administration	75,435	83,079	67,892
Correction Administration	432,715	422,500	395,656
Natural Resources Administration	36,071	46,913	46,168
Department of Correction and Rehabilitation	6,275	5,464	5,576

(Continued)

COMMONWEALTH OF PUERTO RICO

SUPPLEMENTAL SCHEDULE OF EXPENDITURES BY AGENCY — BUDGET AND ACTUAL
BUDGET BASIS — GENERAL FUND
YEAR ENDED JUNE 30, 2010
(In thousands)

	Original Budget	Amended Budget	Actual
EXPENDITURES (Continued):			
Public Safety (continued):			
Parole Board	$ 4,480	$ 2,897	$ 2,797
Forensic Sciences Institute	22,190	17,950	18,213
Special Prosecutor Panel	1,836	5,837	1,836
Pre-Trial Services Office	6,391	6,458	6,411
Correctional Health	89,805	80,004	79,693
Medical Emergencies Service	30,528	29,706	30,422
Criminal Justice College	3,935	3,935	3,934
Total public safety	2,083,332	2,268,128	2,078,972
Health:			
Environmental Quality Board	12,179	12,412	12,141
Department of Health	295,557	309,706	308,037
Puerto Rico Medical Services Administration	15,161	15,814	15,814
Mental Health and Drug Addiction Services Administration	134,914	122,114	120,837
Puerto Rico Solid Waste Authority	16,114	9,227	8,719
Puerto Rico Health Insurance Administration	1,067,072	1,598,782	1,169,266
Cardiovascular Center Corporation of Puerto Rico and the Caribbean	-	-	2,000
Total health	1,540,997	2,068,055	1,636,814
Public housing and welfare:			
Office of Youth Affairs	14,114	6,705	6,069
New Business Training Administration	14,862	13,177	12,932
Department of Labor and Human Resources	-	7,729	7,841
Labor Relations Board	1,080	815	811
Department of Housing	29,234	31,312	25,765
Department of Recreation and Sports	46,622	44,390	44,395
Administration for the Horse Racing Sport and Industry	4,835	3,428	3,503
Women’s Affairs Commission	8,274	4,300	4,038
Public Housing Administration	1,500	1,500	1,216
Office of the Veteran’s Ombudsman	4,421	4,285	3,029
Department of Family	75,505	45,079	56,476
Family and Children Administration	146,106	162,413	176,793
Minors Support Administration	32,162	12,510	12,336
Vocational Rehabilitation Administration	45,235	17,837	18,010
Social Economic Development Administration	120,826	109,303	98,011
Office of the Disabled Persons Ombudsman	5,217	2,701	2,714
Office for Elderly Affairs	3,532	3,646	3,558
Right to Employment Administration	20,156	18,039	13,225
Company for the Integral Development of the Peninsula de Cantera	540	540	583
Industries for the Blind, Mentally Retarded, and Other Disabled Persons of Puerto Rico	500	500	500
Patient Ombudsman	5,904	3,785	3,261
Administration for the Care and Development of the Childhood	17,608	12,973	9,834
Total public housing and welfare	598,233	506,967	504,900

(Continued)

COMMONWEALTH OF PUERTO RICO

SUPPLEMENTAL SCHEDULE OF EXPENDITURES BY AGENCY — BUDGET AND ACTUAL
BUDGET BASIS — GENERAL FUND
YEAR ENDED JUNE 30, 2010
(In thousands)

	Original Budget	Amended Budget	Actual
EXPENDITURES (Continued):			
Education:			
Department of Education	$2,528,036	$2,346,653	$2,215,114
Institute of Puerto Rican Culture	38,549	22,787	25,633
Puerto Rico School of Plastics Arts	4,439	2,585	2,665
State Office for Historic Preservation	2,564	1,770	1,250
General Education Council	1,774	1,509	1,501
University of Puerto Rico	788,276	788,276	788,276
Puerto Rico Council on Higher Education	31,369	28,455	28,564
Musical Arts Corporation	5,827	5,827	5,825
Fine Arts Center Corporation	5,426	2,909	3,040
Puerto Rico Public Broadcasting Corporation	15,788	15,787	15,781
Athenaeum of Puerto Rico	500	500	500
Puerto Rico Conservatory of Music Corporation	4,641	4,641	4,639
Total education	3,427,189	3,221,699	3,092,788
Economic development:			
Department of Transportation and Public Works	193,994	114,710	89,151
Department of Natural and Environmental Resources	37,308	7,370	2,026
Department of Agriculture	30,303	25,675	22,774
Cooperative Enterprises Development Administration	5,143	2,901	3,030
Rural Development Corporation	6,660	5,298	5,377
Department of Economic Development and Commerce	5,440	5,307	5,078
Energy Affairs Administration	770	2,305	1,467
Puerto Rico Ports Authority	900	900	900
Puerto Rico Electric Power Authority	-	10	21
Government Development Bank for Puerto Rico	-	54,000	54,000
Puerto Rico Metropolitan Bus Authority	34,994	34,994	39,888
Puerto Rico Maritime Transportation Authority	21,348	21,448	20,566
Agricultural Services and Development Administration	133,954	103,225	102,506
Culebra Conservation and Development Authority	2,381	526	526
National Parks Company of Puerto Rico	11,103	19,928	13,425
Corporation for the Development of the Film Industry in Puerto Rico	561	561	534
Puerto Rico Trade and Export Company	3,174	3,174	3,173
Puerto Rico Infrastructure Financing Authority	117,000	204,009	204,008
Total economic development	605,033	606,341	568,450
Intergovernmental — Municipal Service Administration	379,879	382,864	391,104
Total intergovernmental	379,879	382,864	391,104
TOTAL EXPENDITURES	$9,582,094	$9,945,585	$9,640,361
OPERATING TRANSFER-OUT TO OTHER FUNDS:			
Office of Management and Budget	67,306	117,950	117,939
Transfer of Treasury — Transfer to Debt Service	520,600	520,600	610,426
	$ 587,906	$ 638,550	$ 728,365

See notes to independent auditors' report.

(Concluded)

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specific purposes.

Public Buildings Authority Special Revenue Fund — The operating fund of a blended component unit used to account for the operation, maintenance, equipment replacement, and other extraordinary operation and maintenance costs of the buildings and facilities that, when constructed, are leased to the Commonwealth's primary government agencies.

The Children's Trust Special Revenue Fund — The Children's Trust special revenue fund is used to account for the money received by the Commonwealth from a global settlement agreement dated November 23, 1998 between certain tobacco companies and certain states, territories, and other jurisdictions of the United State of America, including the Commonwealth. The financial resources received by this fund are used to carry out projects aimed at promoting the well-being of children and youth of Puerto Rico.

Debt Service Funds

The debt service funds are used to account for the accumulation of resources predominantly for, and the payment of, general long-term bonds principal, interest, and related costs other than bonds payable from operations of proprietary fund types, pension trust funds, and discretely presented component units. Long-term debt and interest due on July 1 of the following year are accounted for as a fund liability if resources are available as of June 30 for its payment.

The Children's Trust Debt Service Fund — The debt service fund of The Children's Trust (a blended component unit) accounts for the accumulation of resources for payment of interest and principal on long-term obligations financed with moneys to be received by the Commonwealth from the global settlement agreement signed by certain tobacco companies.

Public Buildings Authority Debt Service Fund — A blended component unit engaged in the construction and/or acquisition of building facilities for lease mainly to the Commonwealth's primary government agencies. Its debt service fund is used to account for the accumulation of resources for the payment of revenue bonds and other liabilities incurred to finance the construction of the buildings and facilities.

Puerto Rico Maritime Shipping Authority Debt Service Fund — This is the remainder of a former shipping company owned by the Commonwealth. Its debt service fund is used to account for the accumulation of resources for the payment of the long-term liability that resulted from the sale of its marine operations. This fund is mainly subsidized from appropriations and operating transfers from the general fund.

Capital Projects Funds

Capital project funds are used to account for the financial resources used by the primary government for the acquisition or construction of major capital facilities not being financed by the Public Buildings Authority's Capital Projects Fund, proprietary fund types, pension trust funds, and discretely presented component units.

Public Buildings Authority's Capital Projects Fund — The Public Buildings Authority's capital projects fund is used to account for the financial resources used for the acquisition or construction of major capital facilities not financed by proprietary fund types, pension trust funds, and discretely presented component units.

Commonwealth Public Improvements Funds and Other Funds — These funds present the activities of the capital improvements program of the Commonwealth, financed with the proceeds of the general obligation bonds.

COMMONWEALTH OF PUERTO RICO

COMBINING BALANCE SHEET — NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2010
(In thousands)

	Special Revenue		Debt Service			Capital Projects		
ASSETS	Public Buildings Authority	The Children's Trust	The Children's Trust	Public Buildings Authority	Puerto Rico Maritime Shipping Authority	Commonwealth of Puerto Rico	Public Buildings Ahoritity	Total Nonmajor Governmental Funds
CASH AND CASH EQUIVALENTS IN COMMERCIAL BANKS	$ 35,785	$ -	$ -	$ -	$ -	$ 49,750	$ -	$ 85,535
CASH AND CASH EQUIVALENTS IN GOVERNMENTAL BANKS	-	24,523	-	-	1,864	220,045	-	246,432
INVESTMENTS	-	31,901	111,676	-	-	-	-	143,577
RECEIVABLES — Net of allowance for uncollectibles:								
Accounts	1,155	-	-	-	-	671	-	1,826
Loans	-	-	-	-	-	39	-	39
Accrued interest	-	2	442	-	-	-	-	444
Other	-	-	40,671	-	-	-	-	40,671
DUE FROM:								
Other funds	162,584	-	-	-	-	4,761	-	167,345
Component units	38,447	-	-	-	-	-	-	38,447
Other governmental entities	6,849	-	-	-	-	-	-	6,849
RESTRICTED ASSETS:								
Cash and cash equivalents in commercial banks	-	-	-	139,193	-	-	77,932	217,125
Cash and cash equivalents in governmental banks	-	-	-	65,404	-	-	-	65,404
REAL ESTATE HELD FOR SALE OR FUTURE DEVELOPMENT	3,084	-	-	-	-	1,853	-	4,937
TOTAL ASSETS	$247,904	$56,426	$152,789	$204,597	$1,864	$277,119	$77,932	$1,018,631

(Continued)

COMMONWEALTH OF PUERTO RICO

COMBINING BALANCE SHEET — NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2010
(In thousands)

	Special Revenue		Debt Service			Capital Projects		Total
LIABILITIES AND FUND BALANCES	Public Buildings Authority	The Children's Trust	The Children's Trust	Public Buildings Authority	Puerto Rico Maritime Shipping Authority	Commonwealth of Puerto Rico	Public Buildings Authoritiy	Nonmajor Governmental Funds
LIABILITIES:								
Accounts payable and accrued liabilities	$ 15,167	$ 687	$ -	$ -	$ 93	$ 37,064	$13,363	$ 66,374
Due to:								
Other funds	3,760	-	-	-	-	-	-	3,760
Other governmental entities	3,077	-	-	-	-	-	-	3,077
Component units	39,635	-	-	-	-	-	-	39,635
Bonds payable	-	-	-	84,850	-	-	-	84,850
Interest payable	-	-	-	85,100	-	-	-	85,100
Deferred revenue	127,217	-	40,671	-	-	-	-	167,888
Total liabilities	188,856	687	40,671	169,950	93	37,064	13,363	450,684
FUND BALANCES:								
Reserved for:								
Encumbrances	-	-	-	-	-	6,376	-	6,376
Debt service	-	-	-	34,647	-	-	-	34,647
Capital projects	-	-	-	-	-	-	64,569	64,569
Unreserved:								
Debt service	-	-	112,118	-	1,771	-	-	113,889
Special revenue funds	59,048	55,739	-	-	-	-	-	114,787
Capital projects funds	-	-	-	-	-	233,679	-	233,679
Total fund balances	59,048	55,739	112,118	34,647	1,771	240,055	64,569	567,947
TOTAL LIABILITIES AND FUND BALANCES	$247,904	$56,426	$152,789	$204,597	$1,864	$277,119	$77,932	$1,018,631

See accompanying independent auditors' report.

(Concluded)

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES — NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010
(In thousands)

	Special Revenue		Debt Service			Capital Projects		Total
	Public Buildings Authority	The Children's Trust	The Children's Trust	Public Buildings Authority	Puerto Rico Maritime Shipping Authority	Commonwealth of Puerto Rico	Public Buildings Authority	Nonmajor Governmental Funds
REVENUES:								
Interest and investment earnings	$ 185	$ 67	$ 3,409	$ -	$ 2	$ -	$ -	$ 3,663
Intergovernmental	-	-	-	-	-	12,000	-	12,000
Other	-	-	-	-	672	-	-	672
Total revenues	185	67	3,409	-	674	12,000	-	16,335
EXPENDITURES:								
Current:								
General government	110,675	252	11	-	-	-	-	110,938
Health	-	2,254	-	-	-	-	-	2,254
Education	-	874	-	-	-	-	-	874
Economic development	-	681	-	-	30	-	-	711
Intergovernmental	-	1,682	-	-	-	113,622	-	115,304
Capital outlay	-	-	-	-	-	68,257	95,306	163,563
Debt service:								
Principal	106,092	-	23,525	145,373	-	-	-	274,990
Interest	9,796	-	56,495	148,942	5,859	-	-	221,092
Other — debt issuance costs	-	-	-	6,094	-	-	-	6,094
Total expenditures	226,563	5,743	80,031	300,409	5,889	181,879	95,306	895,820
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(226,378)	(5,676)	(76,622)	(300,409)	(5,215)	(169,879)	(95,306)	(879,485)
OTHER FINANCING SOURCES (USES):								
Transfers in	10,416	241	75,442	118,925	5,859	-	121,372	332,255
Transfers out	-	-	(241)	-	-	(550)	-	(791)
Long term debt issued	86,300	-	-	49,935	-	17,912	-	154,147
Bond issue discount	-	-	-	(4,777)	-	-	-	(4,777)
Issuance of refunding bonds	-	-	-	483,540	-	-	-	483,540
Payment for refunding of bonds	-	-	-	(297,000)	-	-	-	(297,000)
Termination fee on swap agreements	-	-	-	(28,395)	-	-	-	(28,395)
Total other financing sources	96,716	241	75,201	322,228	5,859	17,362	121,372	638,979
NET CHANGE IN FUND BALANCES	(129,662)	(5,435)	(1,421)	21,819	644	(152,517)	26,066	(240,506)
FUND BALANCES — Beginning of year	188,710	61,174	113,539	12,828	1,127	392,572	38,503	808,453
FUND BALANCES — End of year	$ 59,048	$55,739	$112,118	$ 34,647	$ 1,771	$ 240,055	$ 64,569	$ 567,947

See accompanying independent auditors' report.

NONMAJOR PROPRIETARY FUNDS

Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the government is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Disability Insurance — It was created by Act No. 139 on June 26, 1968. It is used to account for disability benefits to remedy temporarily the loss of income as a result of disability caused by sickness or accident unrelated to the employment.

Drivers' Insurance — It was created by Act No. 428 on May 15, 1950. It is used to account for contributions made by the drivers and their employers to provide a social security plan for the benefit of the drivers in Puerto Rico. The plan also includes payment of benefits for health and life insurance.

Puerto Rico Water Pollution Control Revolving Fund — It was created by Act No. 44 on June 21, 1988, as amended. It is administered, pursuant to Act No. 9 of June 18, 1970, as amended, by the Puerto Rico Environmental Quality Board (EQB). Pursuant to such Act, EQB is authorized to enter into operating agreements and capitalization grant agreements with the U.S. Environmental Protection Agency (EPA) for lending activities.

Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund — It was created by Act No. 32 on July 7, 1997. It is administered, pursuant to Act No. 9 of June 18, 1970, as amended, by the Puerto Rico Department of Health (DOH). Pursuant to such act, DOH, on behalf of the Commonwealth, is authorized to enter into operating and capitalization grant agreements with the EPA for lending activities.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF NET ASSETS — NONMAJOR PROPRIETARY FUNDS
JUNE 30, 2010
(In thousands)

	Business-Type Activities — Nonmajor Enterprise Funds				
ASSETS	**Disability Insurance**	**Drivers' Insurance**	**Puerto Rico Water Pollution Control Revolving Fund**	**Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund**	**Total**
CURRENT ASSETS:					
Cash and cash equivalents in governmental banks	$ 51,612	$ 11,051	$ -	$ -	$ 62,663
Cash and cash equivalents in governmental banks - restricted	-	-	77,214	17,272	94,486
Insurance premiums receivables, net	3,368	1,017	-	-	4,385
Due from component units - restricted	-	-	12,021	4,367	16,388
Accrued interest receivable	187	-	-	-	187
Restricted receivables	-	-	2,582	1,427	4,009
Other receivables	8	36	-	-	44
Total current assets	55,175	12,104	91,817	23,066	182,162
NONCURRENT ASSETS:					
Loans receivable from component units - restricted	-	-	237,666	121,739	359,405
Due from other funds	-	21,006	-	-	21,006
Restricted investments	31,770	-	-	-	31,770
Other restricted assets	-	-	1,369	-	1,369
TOTAL ASSETS	86,945	33,110	330,852	144,805	595,712
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Accounts payable and accrued liabilities	1,432	190	865	96	2,583
Deferred revenue	-	21	-	-	21
Compensated absences	219	-	-	-	219
Insurance benefits payable	560	313	-	-	873
Total current liabilities	2,211	524	865	96	3,696
NONCURRENT LIABILITIES — Compensated absences	289	336	-	-	625
TOTAL LIABILITIES	2,500	860	865	96	4,321
NET ASSETS:					
Restricted for payment of insurance benefits	31,210	-	-	-	31,210
Restricted for lending activities	-	-	329,987	144,709	474,696
Unrestricted	53,235	32,250	-	-	85,485
TOTAL NET ASSETS	$ 84,445	$ 32,250	$329,987	$144,709	$591,391

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS — NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010
(In thousands)

	Business-Type Activities — Nonmajor Enterprise Funds				
	Disability Insurance	Drivers' Insurance	Puerto Rico Water Pollution Control Revolving Fund	Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund	Total
OPERATING REVENUES:					
Insurance premiums	$ 11,739	$ 3,957	$ -	$ -	$ 15,696
Interest	-	-	4,672	2,385	7,057
Total operating revenues	11,739	3,957	4,672	2,385	22,753
OPERATING EXPENSES:					
Insurance benefits	2,684	1,940	-	-	4,624
General, administrative, and other operating expenses	8,118	3,056	3,086	1,296	15,556
Total operating expenses	10,802	4,996	3,086	1,296	20,180
OPERATING INCOME (LOSS)	937	(1,039)	1,586	1,089	2,573
NONOPERATING REVENUES:					
Contributions from U.S. government	-	-	34,112	14,619	48,731
Interest and investment earnings	3,419	50	-	-	3,469
Total nonoperating revenues	3,419	50	34,112	14,619	52,200
INCOME (LOSS) BEFORE TRANSFERS	4,356	(989)	35,698	15,708	54,773
TRANSFERS FROM OTHER FUNDS	-	-	6,020	2,655	8,675
TRANSFERS TO OTHER FUNDS	(4,335)	(589)	-	-	(4,924)
NET CHANGE IN NET ASSETS	21	(1,578)	41,718	18,363	58,524
NET ASSETS — Beginning of year	84,424	33,828	288,269	126,346	532,867
NET ASSETS — End of year	$ 84,445	$ 32,250	$329,987	$144,709	$591,391

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF CASH FLOWS — NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010
(In thousands)

	Business-Type Activities — Nonmajor Enterprise Funds				
	Disability Insurance	Drivers' Insurance	Puerto Rico Water Pollution Control Revolving Fund	Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers and users	$11,735	$ 3,846	$ -	$ -	$ 15,581
Payments to suppliers	(2,721)	(25)	-	-	(2,746)
Payments to employees	(5,341)	(3,207)	-	-	(8,548)
Payments of insurance benefits	(2,745)	(1,947)	-	-	(4,692)
Other payments	-	-	(3,314)	(1,264)	(4,578)
Net cash provided by (used in) operating activities	928	(1,333)	(3,314)	(1,264)	(4,983)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Intergovernmental grants and contributions	-	-	34,112	14,619	48,731
Transfers from other funds	-	-	6,020	2,420	8,440
Transfers to other funds	(4,335)	(589)	-	-	(4,924)
Net cash provided by (used in) noncapital financing activities	(4,335)	(589)	40,132	17,039	52,247
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest collected on deposits, investments and loans	1,167	50	4,321	2,210	7,748
Loans originated	-	-	(53,443)	(16,009)	(69,452)
Principal collected on loans	-	5,000	10,885	4,103	19,988
Proceeds from sales and maturities of investments	7,479	-	-	-	7,479
Purchases of investments	(7,163)	-	-	-	(7,163)
Net cash provided by (used in) investing activities	1,483	5,050	(38,237)	(9,696)	(41,400)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,924)	3,128	(1,419)	6,079	5,864
CASH AND CASH EQUIVALENTS — Beginning of year	53,536	7,923	78,633	11,193	151,285
CASH AND CASH EQUIVALENTS — End of year	$51,612	$11,051	$ 77,214	$ 17,272	$157,149
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:					
Operating income (loss)	$ 937	$ (1,039)	$ 1,586	$ 1,089	$ 2,573
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Interests earned on deposits, loans and investments	-	-	(4,672)	(2,385)	(7,057)
Changes in operating assets and liabilities:					
Increase in accounts receivable	(4)	(104)	(99)	-	(207)
Increase (decrease) in accounts payable and accrued liabilities	356	(110)	(129)	32	149
Decrease in deferred revenues	-	(7)	-	-	(7)
Decrease in compensated absences	(300)	(66)	-	-	(366)
Decrease in liability for insurance benefits payable	(61)	(7)	-	-	(68)
Total adjustments	(9)	(294)	(4,900)	(2,353)	(7,556)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 928	$ (1,333)	$ (3,314)	$ (1,264)	$ (4,983)

See accompanying independent auditors' report.

FIDUCIARY FUNDS

Fiduciary funds are used to account for funds held by the Commonwealth in a trustee capacity, or as an agent for individuals, organizations, and other governmental units. Following are the Commonwealth's fiduciary funds:

Pension Trust Funds

The pension trust funds are used to account for the assets, liabilities, and net assets available for pension benefits held in trust for the public employees of the Commonwealth.

Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) — ERS is a defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration and was created by Act No. 447 on May 15, 1951. ERS is sponsored by the Commonwealth, public corporations, and municipalities of Puerto Rico. Substantially all full-time employees of the Commonwealth and its instrumentalities are covered by ERS.

Puerto Rico System of Annuities and Pensions for Teachers (TRS) — TRS is a defined benefit pension plan administered by the Puerto Rico Teachers Retirement System and was created by Act No. 91 of March 29, 2004, that superseded Act No. 218 of May 6, 1951. TRS is sponsored by the Commonwealth. Substantially, all active teachers of the Commonwealth's Department of Education are covered by TRS. Licensed teachers working in private schools or other educational organizations can be members of TRS at their own choice as long as the required employer and employee contributions are satisfied.

Commonwealth of Puerto Rico Judiciary Retirement System (JRS) — JRS is a defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration and was created by Act No. 12 on October 19, 1954. JRS provides retirement benefits to the employees of the judiciary branch of the Commonwealth, through the office of the Administration of Court Facilities.

Agency Fund

Agency fund is used to account for assets held by the Commonwealth as an agent for individuals, private organizations, and other governments. This fund is custodial in nature (assets equal liabilities) and does not involve measurement of the results of operations.

Special Deposits — This fund acts in a fiduciary capacity in order to account for moneys received with specified purposes for which the law does not specify its recording in any other fund. It mainly includes deposits under the custody of the courts of justice for alimony payments, escrows, revenue collections and agency accounts for which the commonwealth act in an agent's capacity.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF FIDUCIARY NET ASSETS — PENSION TRUST FUNDS
JUNE 30, 2010
(In thousands)

	Pension Trust Funds			
	Employees' Retirement System (ERS)	Teachers' Retirement System (TRS)	Judiciary Retirement System (JRS)	Total
ASSETS:				
Cash and cash equivalents in commercial banks — unrestricted	$ 226,401	$ 24,019	$ 4,007	$ 254,427
Cash and cash equivalents in governmental banks				
Unrestricted	51,446	3,288	30	54,764
Restricted	741,082	-	-	741,082
Collateral from securities lending transactions	110,931	48,673	2,474	162,078
Investments:				
Debt and equity securities, at fair value	2,055,840	1,692,341	76,248	3,824,429
Other	55,307	26,683	-	81,990
Receivables — net:				
Accounts	284,361	-	-	284,361
Loans and advances	1,226,155	409,881	768	1,636,804
Accrued interest and dividends	6,597	4,584	271	11,452
Other	35,220	56,417	68	91,705
Capital assets — net	8,964	22,970	-	31,934
Other assets	40,491	832	-	41,323
Total assets	4,842,795	2,289,688	83,866	7,216,349
LIABILITIES:				
Accounts payable and accrued liabilities	35,183	18,344	25,848	79,375
Securities lending transactions	110,931	48,673	2,474	162,078
Interest payable	13,876	-	-	13,876
Other liabilities	36,039	694	134	36,867
Bonds payable	2,981,775	-	-	2,981,775
Total liabilities	3,177,804	67,711	28,456	3,273,971
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER BENEFITS	$ 1,664,991	$ 2,221,977	$ 55,410	$ 3,942,378

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS — PENSION TRUST FUNDS
YEAR ENDED JUNE 30, 2010
(In thousands)

	Pension Trust Funds			
	Employees' Retirement System (ERS)	Teachers' Retirement System (TRS)	Judiciary Retirement System (JRS)	Total
ADDITIONS:				
Contributions:				
Sponsor	$ 381,243	$ 118,127	$ 10,021	$ 509,391
Participants	345,265	129,888	3,104	478,257
Special	192,242	47,837	629	240,708
Total contributions	918,750	295,852	13,754	1,228,356
Investment income and investment expense:				
Interest	179,585	61,303	1,284	242,172
Dividends	10,663	10,111	211	20,985
Net change in fair value of investments	216,011	203,265	7,385	426,661
Investment expenses	(7,649)	(4,735)	(164)	(12,548)
Net investment income	398,610	269,944	8,716	677,270
Other income	31,783	53,771	804	86,358
Total additions	1,349,143	619,567	23,274	1,991,984
DEDUCTIONS:				
Pension and other benefits	1,249,776	518,553	17,897	1,786,226
Refunds of contributions	45,146	7,847	-	52,993
General and administrative	43,318	28,783	533	72,634
Interest on bonds payable	188,055	-	-	188,055
Total deductions	1,526,295	555,183	18,430	2,099,908
NET CHANGE IN NET ASSETS HELD IN TRUST FOR PENSION AND OTHER BENEFITS	(177,152)	64,384	4,844	(107,924)
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER BENEFITS:				
Beginning of year	1,842,143	2,157,593	50,566	4,050,302
End of year	$ 1,664,991	$ 2,221,977	$ 55,410	$ 3,942,378

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES — AGENCY FUNDS
YEAR ENDED JUNE 30, 2010
(In thousands)

	Balance at June 30, 2009	Additions	Deletions	Balance at June 30, 2010
ASSETS				
CASH AND CASH EQUIVALENTS IN COMMERCIAL BANKS AND U.S. TREASURY	$ 662,714	$ 34,688	$ -	$ 697,402
CASH AND CASH EQUIVALENTS IN GOVERNMENTAL BANKS	1,135,401	4,138,097	4,472,987	800,511
OTHER INVESTMENTS	5,936	-	4,710	1,226
TOTAL ASSETS	$ 1,804,051	$ 4,172,785	$ 4,477,697	$ 1,499,139
LIABILITIES				
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 1,804,051	$ 4,172,785	$ 4,477,697	$ 1,499,139
TOTAL LIABILITIES	$ 1,804,051	$ 4,172,785	$ 4,477,697	$ 1,499,139

See accompanying independent auditors' report.

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS

These entities are presented because the nature and significance of their relationship with the primary government are such that their exclusion would cause the basic financial statements to be misleading. These are discretely presented in a separate column in the basic financial statements due to the nature of the services they provide. The accounting principles followed by each of the component units included herein may vary depending on the type of industries they are involved in (that is, banking, construction, public utilities, and so forth). The detailed information for each of these entities may be obtained directly from the administrative offices of the corresponding entities, as described in note 1 to the basic financial statements included in the financial section of this report.

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2010
(In thousands)

ASSETS	Agricultural Services and Development Administration	Automobile Accidents Compensation Administration	Cardiovascular Center Corporation of Puerto Rico and the Caribbean	Company for the Integreal Development of the Península Cantera	Corporation for the "Caño Martín Peña" ENLACE Project	Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico	Culebra Conservation and Development Authority
CURRENT ASSETS:							
Cash and cash equivalents in commercial banks	$ 15,923	$ 5,615	$ 7,592	$ 3,449	$2,013	$ 1,254	$ 226
Cash and cash equivalents in governmental banks	7,687	-	-	-	-	11,153	-
Investments	-	131,259	-	-	-	-	-
Restricted assets:							
Cash and cash equivalents in commercial banks	-	-	-	-	-	-	-
Cash and cash equivalents in governmental banks	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-
Other restricted assets	-	-	-	-	-	-	-
Securities lending transactions and reverse repurchase agreements	-	43,222	-	-	-	-	-
Receivables — net:							
Insurance premium	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Accounts	5,996	-	10,562	-	-	-	-
Loans and advances	-	-	-	9	-	1,902	-
Accrued interest	-	753	-	-	-	-	-
Other governmental entities	3,600	1,744	4,010	625	224	270	-
Other	3,214	1,424	276	15	-	-	-
Due from:		-					
Primary government	18,758	-	-	10,855	-	-	-
Component units	-	-	-	-	-	-	-
Inventories	3,357	-	2,379	-	-	-	-
Prepaid expenses	1,738	-	400	42	-	-	-
Total current assets	60,273	184,017	25,219	14,995	2,237	14,579	226
NONCURRENT ASSETS:							
Restricted assets:							
Cash and cash equivalents in commercial banks	11,666	379	-	-	35	-	-
Cash and cash equivalents in governmental banks	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-
Other restricted assets	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-
Receivables:							
Loans, interest, and other	-	-	-	6,995	-	-	-
Other governmental agencies	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Due from:							
Primary government	-	-	-	-	-	-	-
Component units	-	-	-	-	-	-	-
Deferred outflows of resources	-	-	-	-	-	-	-
Deferred expenses and other assets	-	31	-	-	-	-	27
Property held for sale or future development	-	-	-	497	-	-	-
Capital assets, not being depreciated	3,656	901	103	452	905	-	640
Capital assets, depreciable — net	34,120	7,994	18,303	112	568	-	341
Total noncurrent assets	49,442	9,305	18,406	8,056	1,508	-	1,008
TOTAL ASSETS	$109,715	$193,322	$43,625	$23,051	$3,745	$14,579	$1,234

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2010
(In thousands)

ASSETS	Economic Development Bank for Puerto Rico	Employment and Training Enterprises Corporation	Farm Insurance Corporation of Puerto Rico	Fine Arts Center Corporation	Governing Board of the 9-1-1- Service	Institue of Puerto Rican Culture	Institutional Trust of the National Guard of Puerto Rico
CURRENT ASSETS:							
Cash and cash equivalents in commercial banks	$ 476	$ 1	$ 12,205	$ 8,736	$ -	$ 20,774	$ -
Cash and cash equivalents in governmental banks	252	-	-	-	20,725	2,719	11,222
Investments	63,450	-	-	-	-	-	51,030
Restricted assets:							
Cash and cash equivalents in commercial banks	-	-	-	-	-	-	-
Cash and cash equivalents in governmental banks	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-
Other restricted assets	-	-	-	-	-	-	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-	-
Receivables — net:							
Insurance premium	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	37
Accounts	-	-	3,383	127	2,097	173	856
Loans and advances	80,833	-	-	-	-	-	-
Accrued interest	5,082	-	-	-	-	-	4
Other governmental entities	-	205	-	114	-	76	22
Other	-	-	-	-	10	-	-
Due from:							
Primary government	-	-	-	-	-	-	-
Component units	-	-	-	-	-	-	-
Inventories	-	27	-	-	24	1,611	-
Prepaid expenses	-	-	137	84	50	-	9
Total current assets	150,093	233	15,725	9,061	22,906	25,353	63,180
NONCURRENT ASSETS:							
Restricted assets:							
Cash and cash equivalents in commercial banks	2,854	-	-	546	-	-	-
Cash and cash equivalents in governmental banks	-	39	-	-	29,697	-	-
Investments	-	-	-	-	-	-	-
Other restricted assets	6,081	-	-	-	-	-	-
Investments	890,397	-	-	-	-	-	-
Receivables:							
Loans, interest, and other	129,123	-	-	-	-	-	-
Other governmental agencies	157	-	-	-	-	-	-
Other	-	-	7,048	-	-	-	-
Due from:							
Primary government	-	-	-	-	-	-	-
Component units	-	-	-	-	-	-	-
Deferred outflows of resources	-	-	-	-	-	-	-
Deferred expenses and other assets	6,969	-	-	-	-	-	-
Property held for sale or future development	-	-	-	-	-	-	2,452
Capital assets, not being depreciated	2,735	-	-	3,155	-	8,365	18,258
Capital assets, depreciable — net	6,782	107	223	12,825	2,038	70,619	5,616
Total noncurrent assets	1,045,098	146	7,271	16,526	31,735	78,984	26,326
TOTAL ASSETS	$1,195,191	$ 379	$ 22,996	$ 25,587	$ 54,641	$ 104,337	$ 89,506

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2010
(In thousands)

ASSETS	Land Authority of Puerto Rico	Musical Arts Corporation	National Parks Company of Puerto Rico	Port of the Americas Authority	Public Corporation for the Supervision and Deposit Insurance of PR Cooperatives	Puerto Rico Conservatory of Music Corporation	Puerto Rico Convention Center District Authority
CURRENT ASSETS:							
Cash and cash equivalents in commercial banks	$ 2,215	$ 1,868	$ 522	$ -	$ -	$ 157	$ 19,589
Cash and cash equivalents in governmental banks	27,411	345	685	2,813	737	-	1,126
Investments	-	-	-	-	45,847	-	-
Restricted assets:							
Cash and cash equivalents in commercial banks	-	-	-	-	-	-	-
Cash and cash equivalents in governmental banks	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-
Other restricted assets	-	-	-	-	-	-	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-	-
Receivables — net:					-		
Insurance premium	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Accounts	7,783	49	436	2	-	-	7,169
Loans and advances	-	-	-	-	-	-	-
Accrued interest	58	-	17	-	1,218	-	-
Other governmental entities	3,932	53	308	-	-	1,474	-
Other	-	-	-	-	5	382	-
Due from:							
Primary government	7,848	-	-	-	-	-	2,742
Component units	14,288	-	-	-	-	-	10,170
Inventories	-	-	-	-	-	-	-
Prepaid expenses	58	-	13	2	-	33	974
Total current assets	63,593	2,315	1,981	2,817	47,807	2,046	41,770
NONCURRENT ASSETS:							
Restricted assets:							
Cash and cash equivalents in commercial banks	-	749	15,176	-	-	14,581	-
Cash and cash equivalents in governmental banks	425	-	10,832	-	-	-	-
Investments	6,967	-	-	-	-	-	64,662
Other restricted assets	-	-	-	-	-	-	-
Investments	-	-	-	-	138,912	-	-
Receivables:							
Loans, interest, and other	-	-	-	-	3,300	-	-
Other governmental agencies	79	-	-	-	-	-	-
Other	9,618	-	-	-	-	-	4,678
Due from:							
Primary government	-	-	-	-	-	-	-
Component units	5,931	-	-	-	-	-	-
Deferred outflows of resources	-	-	-	-	-	-	-
Deferred expenses and other assets	553	-	-	-	-	-	15,076
Property held for sale or future development	-	-	-	-	-	-	-
Capital assets, not being depreciated	83,800	153	20,273	261,082	-	23,474	245,933
Capital assets, depreciable — net	9,015	223	180,782	12	2,848	45,808	417,605
Total noncurrent assets	116,388	1,125	227,063	261,094	145,060	83,863	747,954
TOTAL ASSETS	$ 179,981	$ 3,440	$ 229,044	$263,911	$ 192,867	$ 85,909	$789,724

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2010
(In thousands)

ASSETS	Puerto Rico Council on Higher Education	Puerto Rico Industrial Development Company	Puerto Rico Industrial, Tourist, Educational, Medical and Environmental, Control Facilities Financing Authority	Puerto Rico Infrastructure Financing Authority	Puerto Rico Land Administration	Puerto Rico Maritime Transportation Authority	Puerto Rico Medical Services Administration	Puerto Rico Metropolitan Bus Authority
CURRENT ASSETS:								
Cash and cash equivalents in commercial banks	$ 5	$ 9,263	$ -	$ -	$ 392	$ 861	$ 7	$ 533
Cash and cash equivalents in governmental banks	1,883	-	9,022	132	72,986	-	-	80
Investments	-	-	-	-	16,611	-	-	-
Restricted assets:								
Cash and cash equivalents in commercial banks	-	-	-	160,447	-	-	-	-
Cash and cash equivalents in governmental banks	-	-	-	48,814	-	-	-	-
Investments	-	10,028	-	1,049,177	-	-	-	-
Other restricted assets	-	-	-	36,818	-	-	-	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-	-	-
Receivables — net:								
Insurance premium	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	4,188	-	20,918
Accounts	-	30,081	-	144	2,125	248	3,662	146
Loans and advances	-	224	1	-	-	-	-	-
Accrued interest	-	24	-	-	444	-	-	-
Other governmental entities	194	-	267	-	-	-	3,772	1,576
Other	118	-	-	-	749	-	699	-
Due from:			-					
Primary government	-	43,403	-	15,139	-	-	21,237	1,323
Component units	-	-	-	-	1,306	-	-	-
Inventories	-	-	-	-	-	63	2,284	3,868
Prepaid expenses	-	1,860	-	660	107	1,544	1,028	2,761
Total current assets	2,200	94,883	9,290	1,311,331	94,720	6,904	32,689	31,205
NONCURRENT ASSETS:								
Restricted assets:								
Cash and cash equivalents in commercial banks	-	-	-	-	-	-	2,450	-
Cash and cash equivalents in governmental banks	523	-	-	-	400	-	-	13
Investments	-	38,350	-	313,915	-	-	-	-
Other restricted assets	-	-	-	38,976	-	-	-	-
Investments	7,237	11,986	-	-	-	-	-	-
Receivables:								
Loans, interest, and other	-	228	-	-	-	-	-	-
Other governmental agencies	-	-	-	-	-	-	-	-
Other	-	568	-	-	-	-	-	-
Due from:								
Primary government	-	-	-	-	-	-	-	-
Component units	-	-	26,271	-	-	-	-	-
Deferred outflows of resources	-	-	-	-	-	-	-	-
Deferred expenses and other assets		2,355	23,471	47,098				542
Property held for sale or future development	-	18,534	-	-	168,987	-	-	-
Capital assets, not being depreciated	-	232,454	-	417,045	27,467	6,348	28,872	2,569
Capital assets, depreciable — net	296	472,501	-	216	9,121	37,930	32,075	61,987
Total noncurrent assets	8,056	776,976	49,742	817,250	205,975	44,278	63,397	65,111
TOTAL ASSETS	$ 10,256	$ 871,859	$ 59,032	$ 2,128,581	$ 300,695	$ 51,182	$ 96,086	$ 96,316

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2010
(In thousands)

ASSETS	Puerto Rico Municipal Finance Agency	Puerto Rico Ports Authority	Puerto Rico Public Broadcasting Corporation	Puerto Rico Public Private Partnerships Authority	Puerto Rico School of Plastic Arts	Puerto Rico Solid Waste Authority	Puerto Rico Telephone Authority	Puerto Rico Tourism Company
CURRENT ASSETS:								
Cash and cash equivalents in commercial banks	$ -	$ 271	$ 1,667	$ -	$ -	$ -	$ -	$ 51,420
Cash and cash equivalents in governmental banks	9,131	11	-	307	-	4,108	7,358	-
Investments	-	-	-	-	-	18,013	-	10,202
Restricted assets:								
Cash and cash equivalents in commercial banks	3,798	25,350	-	-	-	-	-	-
Cash and cash equivalents in governmental banks	-	4,190	-	-	-	-	-	-
Investments	253,937	-	-	-	-	-	-	-
Other restricted assets	30,458	-	-	-	-	-	-	-
Securities lending transactions and reverse repurchase agreement	-	-	-	-	-	-	-	-
Receivables — net:								
Insurance premium	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-
Accounts	-	14,846	1,022	-	983	-	-	6,529
Loans and advances	-	-	-	-	-	-	-	13,832
Accrued interest	-	-	-	-	-	-	1	-
Other governmental entities	-	-	137	-	378	3,699	-	-
Other	-	-	276	-	-	764	-	508
Due from:								
Primary government	-	-	-	-	-	-	-	-
Component units	-	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-	-
Prepaid expenses	43	5,068	-	-	-	349	-	7
Total current assets	297,367	49,736	3,102	307	1,361	26,933	7,359	82,498
NONCURRENT ASSETS:								
Restricted assets:								
Cash and cash equivalents in commercial banks	-	-	1,544	-	40	-	-	-
Cash and cash equivalents in governmental banks	-	-	-	-	1,319	11,108	4,706	-
Investments	1,063,297	-	-	-	905	500	-	-
Other restricted assets	15,025	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	58,087
Receivables:								
Loans, interest, and other	-	-	-	-	-	-	-	-
Other governmental agencies	-	21,145	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	15,011
Due from:								
Primary government	-	2,600	-	-	-	-	-	-
Component units	-	50,190	-	-	-	-	-	-
Deferred outflows of resources	-	53,667	-	-	-	-	-	-
Deferred expenses and other assets	-	3,957	683	-	-	18	-	1,822
Property held for sale or future development	-	-	-	-	-	-	-	-
Capital assets, not being depreciated	-	489,517	83	-	-	47,522	-	14,152
Capital assets, depreciable — net	-	676,019	18,288	2	8,208	122,453	-	23,008
Total noncurrent assets	1,078,322	1,297,095	20,598	2	10,472	181,601	4,706	112,080
TOTAL ASSETS	$ 1,375,689	$ 1,346,831	$ 23,700	$ 309	$ 11,833	$ 208,534	$ 12,065	$ 194,578

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2010
(In thousands)

ASSETS	Puerto Rico Trade and Export Company	Right to Employment Administration	Special Communities Perpetual Trust	State Insurance Fund Corporation	Nonmajor Component Units Totals
CURRENT ASSETS:					
Cash and cash equivalents in commercial banks	$ 14,029	$ -	$ -	$ 53,906	$ 234,969
Cash and cash equivalents in governmental banks	1,388	-	-	167,696	360,977
Investments	-	-	-	357,877	694,289
Restricted assets:					
Cash and cash equivalents in commercial banks	-	-	-	-	189,595
Cash and cash equivalents in governmental banks	-	-	-	-	53,004
Investments	-	-	160,105	-	1,473,247
Other restricted assets	-	-	-	-	67,276
Securities lending transactions and reverse repurchase agreements	-	-	-	155,342	198,564
Receivables — net:					
Insurance premium	-	-	-	68,205	68,205
Intergovernmental	-	-	-	-	25,143
Accounts	-	-	-	-	98,419
Loans and advances	-	-	-	-	96,801
Accrued interest	1,674	-	-	9,275	18,550
Other governmental entities	1,034	139	798	1,405	30,056
Other	174	27	-	23,547	32,188
Due from:					
Primary government	-	1,278	-	6,433	129,016
Component units	-	-	-	5,221	30,985
Inventories	-	-	-	6,851	20,464
Prepaid expenses	60	-	-	337	17,364
Total current assets	18,359	1,444	160,903	856,095	3,839,112
NONCURRENT ASSETS:					
Restricted assets:					
Cash and cash equivalents in commercial banks	15,986	-	-	-	66,006
Cash and cash equivalents in governmental banks	1,286	-	1,252	-	61,600
Investments	180,915	-	41,580	-	1,711,091
Other restricted assets	-	-	-	-	60,082
Investments	-	-	-	968,237	2,074,856
Receivables:					
Loans, interest, and other	-	-	-	-	139,646
Other governmental entities	-	-	-	-	21,381
Other	-	-	-	-	36,923
Due from:					
Primary government	-	-	-	-	2,600
Component units	-	-	-	-	82,392
Deferred outflows of resources	-	-	-	-	53,667
Deferred expenses and other assets	-	-	-	-	102,602
Real estate held for sale or future development	-	-	-	-	190,470
Capital assets, not being depreciated	69,291	-	-	13,010	2,022,215
Capital assets, depreciable — net	52,989	240	-	79,819	2,411,093
Total noncurrent assets	320,467	240	42,832	1,061,066	9,036,624
TOTAL ASSETS	$ 338,826	$ 1,684	$ 203,735	$ 1,917,161	$ 12,875,736

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2010
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Agricultural Services and Development Administration	Automobile Accidents Compensation Administration	Cardiovascular Center Corporation of Puerto Rico and the Caribbean	Company for the Integral Development of the Península de Cantera	Corporation for the "Caño Martín Peña" ENLACE Project	Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico
LIABILITIES:						
Current liabilities:						
Accounts payable and accrued liabilities	$ 44,537	$ 10,330	$ 26,505	$ 4,518	$ 86	$ 157
Deposits and escrow liabilities	-	-	-	-	-	-
Due to:						
Primary government	-	-	38,447	-	-	-
Component units	14,288	-	11,649	10,779	-	-
Other governmental entities	8,025	976	1,221	-	923	165
Securities lending transactions and reverse repurchase agreements	-	43,222	-	-	-	-
Interest payable	-	-	-	-	-	-
Deferred revenue	236	37,770	-	-	-	-
Notes payable, current portion	5,604	-	-	-	-	-
Bonds payable, current portion	-	-	-	-	-	-
Accrued compensated absences, current portion	8,046	2,668	3,103	58	38	27
Liability for automobile accident insurance and workmen compensation claims	-	165,927	-	-	-	-
Capital leases	-	-	-	-	-	-
Current portion of other long-term liabilities	-	-	178	-	-	-
Total current liabilities	80,736	260,893	81,103	15,355	1,047	349
Noncurrent liabilities:						
Due to:						
Primary government	-	-	-	-	-	-
Component units	103,518	-	-	-	-	-
Other governmental entities	-	-	-	-	-	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-
Notes payable	-	-	-	-	-	-
Commonwealth appropriation bonds	-	-	-	-	-	-
Bonds payable	-	-	-	-	-	-
Accrued compensated absences	-	-	-	82	-	109
Liabilitiy for automobile accident insurance and workmen compensation claims	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-
Derivative instruments — interest rate swaps	-	-	-	-	-	-
Other long-term liabilities	-	-	1,967	-	-	-
Total noncurrent liabilities	103,518	-	1,967	82	-	109
Total liabilities	184,254	260,893	83,070	15,437	1,047	458
NET ASSETS (DEFICIT):						
Invested in capital assets, net of related debt	-	8,895	18,140	192	1,472	-
Restricted for:						
Trust — nonexpendable	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Affordable housing and related loan insurance programs	-	-	-	-	-	-
Student loans and other educational purpose	-	-	-	497	-	-
Other specified purposes	-	-	-	6,925	35	13,513
Unrestricted	(74,539)	(76,466)	(57,585)	-	1,191	608
Total net assets (deficit)	(74,539)	(67,571)	(39,445)	7,614	2,698	14,121
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$ 109,715	$ 193,322	$ 43,625	$ 23,051	$ 3,745	$ 14,579

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2010
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Culebra Conservation and Development Authority	Economic Development Bank for Puerto Rico	Employment and Training Enterprises Corporation	Farm Insurance Corporation of Puerto Rico	Fine Arts Center Corporation	Governing Board of the 9-1-1- Service
LIABILITIES:						
Current liabilities:						
Accounts payable and accrued liabilities	$ 35	$ -	$ 2,233	$ 304	$ 271	$ 1,531
Deposits and escrow liabilities	-	385,279	136	-	236	-
Due to:						
Primary government	-	-	-	-	-	4,189
Component units	-	419	-	-	-	-
Other governmental entities	-	4	-	77	-	3,069
Securities lending transactions and reverse repurchase agreements	-	63,450	-	-	-	-
Interest payable	-	2,462	-	-	-	-
Deferred revenue	-	-	788	4,655	546	-
Notes payable, current portion	-	-	-	-	-	-
Bonds payable, current portion	-	-	-	-	-	-
Accrued compensated absences, current portion	9	-	289	636	400	387
Liability for automobile accident insurance and workmen compensation claims	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-
Current portion of other long-term liabilities	-	4,297	-	-	-	-
Total current liabilities	44	455,911	3,446	5,672	1,453	9,176
Noncurrent liabilities:						
Due to:						
Primary government	-	-	-	-	-	-
Component units	-	10,337	-	5,931	-	-
Other governmental entities	-	-	-	-	-	-
Securities lending transactions and reverse repurchase agreements	-	114,300	-	-	-	-
Deferred revenue	-	-	-	-	-	-
Notes payable	-	456,321	-	-	-	-
Commonwealth appropriation bonds	-	-	-	-	-	-
Bonds payable	-	-	-	-	-	-
Accrued compensated absences	48	2,223	-	-	267	903
Liability for automobile accident insurance and workmen compensation claims	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-
Derivative instruments — interest rate swaps	-	-	-	-	-	-
Other long-term liabilities	-	11,120	-	-	-	-
Total noncurrent liabilities	48	594,301	-	5,931	267	903
Total liabilities	92	1,050,212	3,446	11,603	1,720	10,079
NET ASSETS (DEFICIT):						
Invested in capital assets, net of related debt	980	(1,239)	-	223	15,465	2,038
Restricted for:						
Trust — nonexpendable	-	-	-	-	-	-
Capital projects	-	-	-	-	546	10,051
Debt service	-	-	-	-	-	-
Affordable housing and related loan insurance programs	-	-	-	-	-	-
Student loans and other educational purpose	-	-	-	-	-	-
Other specified purposes	-	8,889	-	-	-	12,190
Unrestricted	162	137,329	(3,067)	11,170	7,856	20,283
Total net assets (deficit)	1,142	144,979	(3,067)	11,393	23,867	44,562
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$ 1,234	$ 1,195,191	$ 379	$ 22,996	$ 25,587	$ 54,641

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2010
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Institute of Puerto Rican Culture	Institutional Trust of the National Guard of Puerto Rico	Land Authority of Puerto Rico	Musical Arts Corporation	National Parks Company of Puerto Rico	Port of the Americas Authority	Public Corporation for the Supervision and Deposit Insurance of PR Cooperatives
LIABILITIES:							
Current liabilities:							
Accounts payable and accrued liabilities	$ 2,066	$ 1,090	$ 33,652	$ 2,736	$ 2,086	$ 13,438	$ 33,094
Deposits and escrow liabilities	-	-	10,304	-	-	-	-
Due to:							
Primary government	-	-	-	-	1,929	-	-
Component units	-	-	49,061	-	19,509	-	-
Other governmental entities	144	12	15,751	208	3,941	-	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-	-
Interest payable	-	-	2,773	-	391	-	-
Deferred revenue	-	-	8	744	-	-	-
Notes payable, current portion	-	-	-	-	-	-	-
Bonds payable, current portion	-	-	-	-	-	-	-
Accrued compensated absences, current portion	246	94	439	116	281	-	1,673
Liability for automobile accident insurance and workmen compensation claims	-	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-	-
Current portion of other long-term liabilities	-	-	11,573	-	5,986	-	-
Total current liabilities	2,456	1,196	123,561	3,804	34,123	13,438	34,767
Noncurrent liabilities:							
Due to:							
Primary government	-	-	-	-	-	-	-
Component units	-	-	-	-	-	204,713	-
Other governmental entities	-	-	-	-	-	-	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-
Notes payable	-	-	700	-	-	-	-
Commonwealth appropriation bonds	-	-	76,715	-	-	-	-
Bonds payable	-	-	-	-	-	-	-
Accrued compensated absences	2,025	-	974	108	4,886	-	-
Liability for automobile accident insurance and workmen compesantion claims	-	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-	-
Derivative instruments — interest rate swaps	-	-	-	-	-	-	-
Other long-term liabilities	-	-	-	4,551	2,378	-	-
Total noncurrent liabilities	2,025	-	78,389	4,659	7,264	204,713	-
Total liabilities	4,481	1,196	201,950	8,463	41,387	218,151	34,767
NET ASSETS (DEFICIT):							
Invested in capital assets, net of related debt	78,840	23,874	92,815	376	194,949	43,149	2,848
Restricted for:							
Trust — nonexpendable	-	-	-	-	-	-	-
Capital projects	10,872	-	-	-	26,007	-	-
Debt service	-	-	-	-	-	-	-
Affordable housing and related loan insurance programs	-	-	-	-	-	-	-
Student loans and other educational purpose	-	500	-	-	-	-	-
Other specified purposes	7,740	4,522	425	405	-	-	69,658
Unrestricted	2,404	59,414	(115,209)	(5,804)	(33,299)	2,611	85,594
Total net assets (deficit)	99,856	88,310	(21,969)	(5,023)	187,657	45,760	158,100
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$ 104,337	$ 89,506	$ 179,981	$ 3,440	$ 229,044	$ 263,911	$ 192,867

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2010
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Puerto Rico Conservatory of Music Corporation	Puerto Rico Convention Center District Authority	Puerto Rico Council on Higher Education	Puerto Rico Industrial Development Company	Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental, Control Facilities Financing Authority	Puerto Rico Infrastructure Financing Authority	Puerto Rico Land Administration	Puerto Rico Maritime Transportation Authority
LIABILITIES:								
Current liabilities:								
Accounts payable and accrued liabilities	$ 4,335	$ 6,704	$ 295	$ 32,357	$ 85	$ 134,692	$ 3,591	$ 14,715
Deposits and escrow liabilities	-	1,888	-	-	-	-	-	-
Due to:					-			
Primary government	-	-	-	19,244	-	-	-	-
Component units	416	153,679	-	91,376	2,007	3,135	-	1,150
Other governmental entities	-	-	-	-	-	-	-	2,884
Securities lending transactions and reverse								
repurchase agreements	-	-	-	-	-	-	-	-
Interest payable	-	15,060	-	4,161	-	55,477	-	-
Deferred revenue	1,536	4,915	-	-	-	-	2,330	7,223
Notes payable, current portion	-	-	-	5,137	-	-	-	-
Bonds payable, current portion	-	8,640	-	11,875	-	1,038,860	-	-
Accrued compensated absences, current portion	213	130	-	5,485	6	-	785	1,557
Liability for automobile accident insurance and								
workmen compensation claims	-	-	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-	-	-
Current portion of other long-term liabilities	-	-	-	175	-	-	-	-
Total current liabilities	6,500	191,016	295	169,810	2,098	1,232,164	6,706	27,529
Noncurrent liabilities:								
Due to:								
Primary government	-	-	-	-	-	-	-	-
Component units	612	-	-	-	59,100	-	-	50,152
Other governmental entities	-	-	-	-	-	-	-	-
Securities lending transactions and reverse	-	-	-	-		-	-	-
repurchase agreements	-	-	-	-	-	-	-	-
Deferred revenue	-	5,179	-	-	-	-	6,750	-
Notes payable	-	-	-	78,528	-	-	-	-
Commonwealth appropriation bonds	-	-	-	-	-	4,956	-	-
Bonds payable	-	457,320	-	237,090	-	1,959,201	-	-
Accrued compensated absences	794	-	545	-	-	-	-	-
Liability for automobile accident insurance and								
workmen compensation claims	-	-	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-	-	-
Derivative instruments — interest rate swaps	-	-	-	-	-	-	-	-
Other long-term liabilities	2,008	-	-	11,149	-	4,859	34,955	-
Total noncurrent liabilities	3,414	462,499	545	326,767	59,100	1,969,016	41,705	50,152
Total liabilities	9,914	653,515	840	496,577	61,198	3,201,180	48,411	77,681
NET ASSETS (DEFICIT):								
Invested in capital assets, net of related debt	49,973	55,005	296	405,277	-	216	9,121	39,699
Restricted for:								
Trust — nonexpendable	-	-	-	-	-	310,149	-	-
Capital projects	25,415	-	-	-	-	-	-	-
Debt service	-	-	-	32,342	-	1,079,745	-	-
Affordable housing and related loan insurance programs	-	-	-	-	-	-	-	-
Student loans and other educational purpose	1,221	-	7,822	-	-	-	-	-
Other specified purposes	-	45,173	-	-	-	507	-	-
Unrestricted	(614)	36,031	1,298	(62,337)	(2,166)	(2,463,216)	243,163	(66,198)
Total net assets (deficit)	75,995	136,209	9,416	375,282	(2,166)	(1,072,599)	252,284	(26,499)
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$ 85,909	$ 789,724	$ 10,256	$ 871,859	$ 59,032	$ 2,128,581	$ 300,695	$ 51,182

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2010
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Puerto Rico Medical Services Administration	Puerto Rico Metropolitan Bus Authority	Puerto Rico Municipal Finance Agency	Puerto Rico Ports Authority	Puerto Rico Public Broadcasting Corporation	Puerto Rico Public Private Partnerships Authority	Puerto Rico School of Plastic Arts	Puerto Rico Solid Waste Authority
LIABILITIES:								
Current liabilities:								
Accounts payable and accrued liabilities	$ 27,496	$ 38,510	$ 556	$ 77,428	$ 2,445	$ 978	$ 682	$ 5,234
Deposits and escrow liabilities	-	-	88,463	1,372	-	-	-	-
Due to:								
Primary government	81,378	7,949	-	-	-	-	-	-
Component units	19,883	5,622	-	130,241	-	-	-	73,822
Other governmental entities	127,305	9,794	1,596	1,392	607	4	-	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-	-	-
Interest payable	-	-	25,381	134	-	-	-	-
Deferred revenue	-	2,239	-	86	709	-	-	39
Notes payable, current portion	-	4,720	-	173,334	-	-	-	-
Bonds payable, current portion	-	-	90,200	-	-	-	-	-
Accrued compensated absences, current portion	14,301	4,547	-	6,887	1,091	32	83	389
Liability for automobile accident insurance and workmen compensation claims	-	-	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-	-	-
Current portion of other long-term liabilities	184	-	-	-	74	-	-	-
Total current liabilities	270,547	73,381	206,196	390,874	4,926	1,014	765	79,484
Noncurrent liabilities:								
Due to:								
Primary government	-	-	-	41,532	-	-	-	-
Component units	-	-	-	67,433	-	2,147	-	-
Other governmental entities	-	-	4,789	11,594	-	-	-	3,500
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-	-	-
Deferred revenue	-	-	-	2,060	-	-	-	-
Notes payable	-	35,690	-	397,479	-	-	-	-
Commonwealth appropriation bonds	-	-	-	-	-	-	-	10,689
Bonds payable	-	-	1,107,704	42,666	-	-	-	-
Accrued compensated absences	-	-	-	-	1,573	-	672	495
Liability for automobile accident insurance and workmen compensation claims	-	-	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-	-	-
Derivative instruments — interest rate swaps	-	-	-	53,667	-	-	-	-
Other long-term liabilities	7,481	-	-	2,933	44	-	-	-
Total noncurrent liabilities	7,481	35,690	1,112,493	619,364	1,617	2,147	672	14,684
Total liabilities	278,028	109,071	1,318,689	1,010,238	6,543	3,161	1,437	94,168
NET ASSETS (DEFICIT):								
Invested in capital assets, net of related debt	60,687	47,417	-	408,318	18,252	-	8,208	109,791
Restricted for:								
Trust — nonexpendable	-	-	-	-	-	-	-	-
Capital projects	-	-	-	5,579	-	-	-	-
Debt service	-	-	-	3,780	-	-	-	-
Affordable housing and related loan insurance programs	-	-	-	-	-	-	-	-
Student loans and other educational purpose	-	-	-	-	-	-	905	-
Other specified purposes	2	-	136,845	-	1,334	-	-	160
Unrestricted	(242,631)	(60,172)	(79,845)	(81,084)	(2,429)	(2,852)	1,283	4,415
Total net assets (deficit)	(181,942)	(12,755)	57,000	336,593	17,157	(2,852)	10,396	114,366
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$ 96,086	$ 96,316	$ 1,375,689	$ 1,346,831	$ 23,700	$ 309	$ 11,833	$ 208,534

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2010
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Puerto Rico Telephone Authority	Puerto Rico Tourism Company	Puerto Rico Trade and Export Company	Right to Employment Administration	Special Communities Perpetual Trust	State Insurance Fund Corporation	Nonmajor Component Units Totals
LIABILITIES:							
Current liabilities:							
Accounts payable and accrued liabilities	$ 18	$ 47,414	$ 4,770	$ 1,745	$ 53,071	$ 208,968	$ 844,758
Deposits and escrow liabilities	-	-	-	-	-	-	487,678
Due to:							
Primary government	-	17,460	9,922	-	-	-	180,518
Component units	-	10,170	1,066	-	-	1,454	599,726
Other governmental entities	-	1,388	-	1,729	-	1,027	182,242
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	155,342	262,014
Interest payable	-	-	1,585	-	-	-	107,424
Deferred revenue	-	-	-	-	-	23,928	87,752
Notes payable, current portion	-	-	16,273	-	-	2,160	207,228
Bonds payable, current portion	-	-	-	-	-	-	1,149,575
Accrued compensated absences, current portion	-	2,064	2,804	-	-	-	58,884
Liability for automobile accident insurance and workmen compensation claims	-	-	-	-	-	196,182	362,109
Capital leases	-	-	-	-	-	509	509
Current portion of other long-term liabilities	-	-	42	-	-	-	22,509
Total current liabilities	18	78,496	36,462	3,474	53,071	589,570	4,552,926
Noncurrent liabilities:							
Due to:							
Primary government	-	-	-	-	-	-	41,532
Component units	-	-	-	-	376,095	220,000	1,100,038
Other governmental entities	-	-	-	1,948	-	-	21,831
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-	114,300
Deferred revenue	-	-	-	-	-	-	13,989
Notes payable	-	-	180,915	-	-	41,643	1,191,276
Commonwealth appropriation bonds	-	60,528	-	-	-	-	152,888
Bonds payable	-	-	-	-	-	-	3,803,981
Accrued compensated absences	-	2,626	-	1,818	-	-	20,148
Liabilitiy for automobile accident insurance and workmen compensation claims	-	-	-	-	-	582,061	582,061
Capital leases	-	-	-	-	-	31,160	31,160
Derivative instruments — interest rate swaps	-	-	-	-	-	-	53,667
Other long-term liabilities	7,026	584	6,125	-	-	85,824	183,004
Total noncurrent liabilities	7,026	63,738	187,040	3,766	376,095	960,688	7,309,875
Total liabilities	7,044	142,234	223,502	7,240	429,166	1,550,258	11,862,801
NET ASSETS (DEFICIT):							
Invested in capital assets, net of related debt	-	37,070	106,007	240	-	17,357	1,855,951
Restricted for:							
Trust — nonexpendable	-	-	-	-	-	-	310,149
Capital projects	-	-	-	-	-	-	78,470
Debt service	-	-	-	-	-	-	1,115,867
Affordable housing and related loan insurance programs	-	-	-	-	150,048	-	150,048
Student loans and other educational purpose	-	-	-	-	-	-	10,945
Other specified purposes	4,706	-	1,096	-	-	-	314,125
Unrestricted	315	15,274	8,221	(5,796)	(375,479)	349,546	(2,822,620)
Total net assets (deficit)	5,021	52,344	115,324	(5,556)	(225,431)	366,903	1,012,935
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$ 12,065	$ 194,578	$ 338,826	$ 1,684	$ 203,735	$ 1,917,161	$ 12,875,736

See accompanying independent auditors' report.

(Concluded)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED
COMPONENT UNITS
COMBINING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010
(In thousands)

		Program Revenues					General Revenues and Transfers								
	Expenses	Charges for Services	Operating Grants and Contributions	Earnings on Investments	Capital Grants and Contributions	Net Revenues (Expenses) and Changes in Net Assets (Deficit)	Payments from (to) Primary Government	Payments from (to) Other Component Units	Grants and Contributions Not Restricted to Specific Programs	Taxes	Interest and Investment Earnings	Other	Change in Net Assets (Deficit)	Net Assets (Deficit), Beginning of Year (as Restated)	Net Assets (Deficit), End of Year
Agricultural Services and Development Administration	$ 172,685	$ 115,868	$ -	$ -	$ -	$ (56,817)	$ 89,712	$ -	$ -	$ 8,697	$ -	$ -	$ 41,592	$ (116,131)	$ (74,539)
Automobile Accidents Compensation Administration	95,474	85,004	-	-	-	(10,470)	-	-	-	-	10,837	-	367	(67,938)	(67,571)
Cardiovascular Center Corporation of Puerto Rico and the Caribbean	96,977	84,822	-	-	-	(12,155)	15,415	-	-	-	76	-	3,336	(42,781)	(39,445)
Company for the Integral Development of the “Península de Cantera”	14,130	-	-	-	1,293	(12,837)	12,023	-	19	-	83	-	(712)	8,326	7,614
Corporation for the “Caño Martín Peña” ENLACE Project	1,591	-	-	-	134	(1,457)	1,374	-	-	-	31	23	(29)	2,727	2,698
Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico	3,202	342	-	-	-	(2,860)	3,801	-	-	-	-	17	958	13,163	14,121
Culebra Conservation and Development Authority	922	312	-	-	-	(610)	526	-	-	-	-	-	(84)	1,226	1,142
Economic Development Bank for Puerto Rico	52,056	49,296	-	-	-	(2,760)	30,000	-	-	-	3,564	1,115	31,919	113,060	144,979
Employment and Training Enterprises Corporation	4,465	2,075	-	-	-	(2,390)	-	-	-	-	3	327	(2,060)	(1,007)	(3,067)
Farm Insurance Corporation of Puerto Rico	3,145	2,752	1,253	-	-	860	-	-	-	-	182	47	1,089	10,304	11,393
Fine Arts Center Corporation	7,156	2,033	-	-	-	(5,123)	4,225	1,700	-	-	155	-	957	22,910	23,867
Governing Board of the 911 Service	22,027	21,925	-	-	-	(102)	-	-	-	-	267	-	165	44,397	44,562
Institute of Puerto Rican Culture	23,061	-	-		-	(23,061)	17,076	-	-	18,839	1,113	-	13,967	85,889	99,856
Institutional Trust of the National Guard of Puerto Rico	8,877	5,210	-	-	-	(3,667)	2,452	-	456	-	1,289	-	530	87,780	88,310
Land Authority of Puerto Rico	28,327	11,321	-	-	-	(17,006)	15,427	-	-	-	67	-	(1,512)	(20,457)	(21,969)
Musical Arts Corporation	8,394	485	-	-	-	(7,909)	9,460	(1,700)	-	-	254	236	341	(5,364)	(5,023)
National Parks Company of Puerto Rico	45,001	10,294	-	-	15,743	(18,964)	-	-	-	-	-	293	(18,671)	206,328	187,657
Port of the Americas Authority	1,031	7	-	-	-	(1,024)	10,187	-	-	-	5	4,552	13,720	32,040	45,760
Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives	11,926	19,326	1,610	-	-	9,010	-	-	-	-	7,657	-	16,667	141,433	158,100
Puerto Rico Conservatory of Music Corporation	10,524	2,306	1,583	-	15,126	8,491	4,814	-	1,155	-	8	-	14,468	61,527	75,995
Puerto Rico Convention Center District Authority	47,158	25,012	-	-	-	(22,146)	4,876	35,142	-	-	(29,897)	1,743	(10,282)	146,491	136,209
Puerto Rico Council on Higher Education	30,036	427	1,746	-	-	(27,863)	28,646	-	-	-	31	55	869	8,547	9,416
Puerto Rico Industrial Development Company	85,440	62,185	-	-	2,264	(20,991)	4,735	-	-	-	1,993	3,938	(10,325)	385,607	375,282
Puerto Rico Industrial, Tourist, Educational, Medical, and	-						-								
Environmental Control Facilities Financing Authority	12,749	218	-	-	-	(12,531)	-	-	-	-	1,397	-	(11,134)	8,968	(2,166)
Puerto Rico Infrastructure Financing Authority	363,001	-	77,593	26,664	-	(258,744)	239,481	(934,500)	-	-	3	-	(953,760)	(118,839)	(1,072,599)
Puerto Rico Land Administration	9,221	8,966	-	-	-	(255)	-	-	-	-	879	16	640	251,644	252,284
Puerto Rico Maritime Transportation Authority	33,394	4,612	1,680	-	8,386	(18,716)	21,779	-	-	-	2	-	3,065	(29,564)	(26,499)
Puerto Rico Medical Services Administration	232,165	124,675	-	-	-	(107,490)	15,689	-	-	-	1,011	-	(90,790)	(91,152)	(181,942)
Puerto Rico Metropolitan Bus Authority	89,286	6,313	14,306	-	22,834	(45,833)	52,646	-	-	-	-	-	6,813	(19,568)	(12,755)
Puerto Rico Municipal Finance Agency	59,058	-	-	-	-	(59,058)	-	-	-	-	108,826	41	49,809	7,191	57,000
Puerto Rico Ports Authority	216,225	157,932	-	-	-	(58,293)	242	-	15,553	-	125	3,855	(38,518)	375,111	336,593
Puerto Rico Public Broadcasting Corporation	26,547	3,200	-	-	-	(23,347)	16,545	-	3,000	-	17	251	(3,534)	20,691	17,157
Puerto Rico Public Private Partnerships Authority	2,941	89				(2,852)							(2,852)		(2,852)
Puerto Rico School of Plastic Arts	6,015	884	3,588	-	-	(1,543)	2,650	-	-	-	66	-	1,173	9,223	10,396
Puerto Rico Solid Waste Authority	21,782	5,001	-	-	-	(16,781)	22,145	-	-	-	-	-	5,364	109,002	114,366
Puerto Rico Telephone Authority	151	-	-	-	-	(151)	-	-	-	-	14	-	(137)	5,158	5,021
Puerto Rico Tourism Company	111,146	168,872	5,157	-	-	62,883	1,894	(105,287)	-	13,326	5,215		(21,969)	74,313	52,344
Puerto Rico Trade and Export Company	36,914	16,314	-	-	-	(20,600)	5,160	-	-	-	9,427	1,123	(4,890)	120,214	115,324
Right to Employment Administration	15,659	-	-	-	-	(15,659)	13,062	-	-	-	1	1	(2,595)	(2,961)	(5,556)
Special Communities Perpetual Trust	91,516	-	-	-	-	(91,516)	25,213	-	-	-	1,868	-	(64,435)	(160,996)	(225,431)
State Insurance Fund Corporation	704,043	628,442	-	-	-	(75,601)	(43,799)	-	-	-	124,389	(292)	4,697	362,206	366,903
Total nonmajor component units	$2,805,418	$1,626,520	$108,516	$ 26,664	$ 65,780	$ (977,938)	$ 627,456	$ (1,004,645)	$20,183	$ 40,862	$ 250,958	$ 17,341	$ (1,025,783)	$ 2,038,718	$ 1,012,935

See accompanying independent auditor’s report.

STATISTICAL SECTION

STATISTICAL SECTION (UNAUDITED)

This part of the Commonwealth of Puerto Rico's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Commonwealth's overall financial health.

Contents

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

COMMONWEALTH OF PUERTO RICO

CHANGES IN NET ASSETS (DEFICIT) (UNAUDITED)
LAST EIGHT FISCAL YEARS
ACCRUAL BASIS OF ACCOUNTING
(In thousands)

	2010	2009	2008	2007	2006	2005	2004	2003
EXPENSES:								
Governmental activities:								
General government	$ 3,156,646	$ 2,460,391	$ 2,592,834	$ 2,847,596	$ 2,844,494	$ 1,827,816	$ 1,963,879	$ 2,324,715
Public safety	2,228,000	2,247,480	2,161,265	1,983,782	2,217,294	2,580,951	1,950,635	1,606,272
Health	2,843,744	2,858,750	2,471,960	1,943,582	1,422,813	2,364,110	2,386,735	1,903,811
Public housing and welfare	3,726,041	3,560,871	3,194,945	3,157,877	3,287,559	3,443,886	2,919,315	3,239,366
Education	4,543,362	5,280,249	4,571,722	4,748,008	4,110,669	5,000,686	3,684,331	3,375,815
Economic development	292,037	779,449	471,640	554,271	564,447	1,006,945	896,925	451,945
Payment of obligations of component units	196,898	136,415	-	-	-	-	-	-
Intergovernmental	533,939	613,033	474,023	593,264	440,390	-	591,237	466,762
Interest and other	1,648,875	1,128,918	1,086,906	863,723	882,163	845,556	778,700	671,228
Total governmental activities	19,169,542	19,065,556	17,025,295	16,692,103	15,769,829	17,069,950	15,171,757	14,039,914
Business-type activities:								
Lotteries	820,261	467,788	699,005	679,274	670,425	699,407	731,344	695,888
Unemployment	720,992	723,287	269,924	192,484	207,483	197,967	142,652	343,243
Other	20,180	31,947	28,738	26,860	25,043	32,437	26,763	22,385
Total business-type activities	1,561,433	1,223,022	997,667	898,618	902,951	929,811	900,759	1,061,516
Total primary government expenses	20,730,975	20,288,578	18,022,962	17,590,721	16,672,780	17,999,761	16,072,516	15,101,430
PROGRAM REVENUE:								
Governmental activities:								
Charges for services	600,473	758,427	664,505	757,724	828,993	702,691	769,207	757,116
Operating grants and contributions	6,536,125	5,541,715	4,311,592	4,773,174	4,365,711	4,096,204	1,038,776	3,830,639
Capital grants and contributions	129,947	110,847	137,916	257,514	100,990	121,083	2,592,055	173,644
Total governmental activities	7,266,545	6,410,989	5,114,013	5,788,412	5,295,694	4,919,978	4,400,038	4,761,399
Business activities:								
Charges for services	1,218,613	1,206,080	1,161,084	1,140,539	1,149,426	1,187,009	1,136,705	1,132,285
Operating grants and contributions	544,393	245,770	77,803	43,480	59,613	22,315	59,728	97,033
Total business-type activities	1,763,006	1,451,850	1,238,887	1,184,019	1,209,039	1,209,324	1,196,433	1,229,318
NET (EXPENSE) REVENUE:								
Governmental activities	(11,902,997)	(12,654,567)	(11,911,282)	(10,903,691)	(10,474,135)	(12,149,972)	(10,771,719)	(9,278,515)
Business-type activities	201,573	228,828	241,220	285,401	306,088	279,513	295,674	167,802
TOTAL PRIMARY GOVERNMENT NET EXPENSE	$ (11,701,424)	$ (12,425,739)	$ (11,670,062)	$ (10,618,290)	$ (10,168,047)	$ (11,870,459)	$ (10,476,045)	$ (9,110,713)

(Continued)

COMMONWEALTH OF PUERTO RICO

CHANGES IN NET ASSETS (DEFICIT) (UNAUDITED)
LAST EIGHT FISCAL YEARS
ACCRUAL BASIS OF ACCOUNTING
(In thousands)

	2010	2009	2008	2007	2006	2005	2004	2003
GENERAL REVENUE:								
Governmental activities:								
Taxes:								
Income	$ 4,857,035	$ 5,424,476	$ 5,493,881	$ 6,488,211	$ 6,255,391	$ 5,526,006	$ 5,191,080	$ 4,941,128
Excise	1,145,538	1,118,283	1,318,866	1,475,311	2,013,998	2,101,216	1,924,610	1,894,729
Sales and use tax	1,087,053	1,089,073	910,609	583,639	-	-	-	-
Other	326,343	103,348	11,356	4,663	15,145	7,128	19,211	3,055
Revenue from global tobacco settlement agreement	75,584	90,073	82,608	69,604	66,796	106,521	70,420	101,849
Unrestricted investment earnings (losses)	(42,682)	114,699	160,926	176,674	117,080	116,686	60,585	85,565
Revenue from component units	76,758	386,182	74,389	311,732	68,745	474,069	175,729	111,752
Grants and contributions not restricted to specific programs	114,739	115,176	120,006	135,916	196,721	102,691	5,706	103,423
Payment from agency fund	-	-	-	-	-	-	-	-
Special items	-	175,102	3,749,348	-	(2,485)	-	(35,646)	(203,514)
Gain on sale of assets	-	-	-	-	19,588	-	-	-
Transfers	265,852	251,170	309,815	342,743	242,642	492,796	203,258	279,060
Other	166,517	96,696	299,631	71,187	203,525	322,185	384,719	214,381
Total governmental activities	8,072,737	8,964,278	12,531,435	9,659,680	9,197,146	9,249,298	7,999,672	7,531,428
Business-type activities:								
Unrestricted investments earnings	21,260	20,036	35,423	37,177	33,165	32,284	23,831	77,362
Revenue from component units	-	-	-	-	-	-	-	1,038
Grants and contributions not restricted to specific programs	-	-	-	-	-	-	-	-
Transfers	(265,852)	(251,170)	(309,815)	(342,743)	(242,642)	(492,796)	(203,258)	(279,060)
Total business-type activities	(244,592)	(231,134)	(274,392)	(305,566)	(209,477)	(460,512)	(179,427)	(200,660)
Total primary government	7,828,145	8,733,144	12,257,043	9,354,114	8,987,669	8,788,786	7,820,245	7,330,768
CHANGE IN NET ASSETS:								
Governmental activities	(3,830,260)	(3,690,289)	620,153	(1,244,011)	(1,276,989)	(2,900,674)	(2,772,047)	(1,747,087)
Business-type activities	(43,019)	(2,306)	(33,172)	(20,165)	96,611	(180,999)	116,247	(32,858)
TOTAL PRIMARY GOVERNMENT	$(3,873,279)	$(3,692,595)	$ 586,981	$(1,264,176)	$(1,180,378)	$(3,081,673)	$(2,655,800)	$(1,779,945)

Information for these schedules was not available for fiscal periods prior to 2002 because was not required prior to adoption of GASB Statement No. 34. (Concluded)

COMMONWEALTH OF PUERTO RICO

NET ASSETS (DEFICIT) BY COMPONENT (UNAUDITED)
LAST EIGHT FISCAL YEARS
ACCRUAL BASIS OF ACCOUNTING
(In thousands)

	2010	2009	2008	2007	2006	2005	2004	2003
GOVERNMENTAL ACTIVITIES:								
Invested in capital assets — net of related debt	$ 3,866,328	$ 3,888,495	$ 3,979,308	$ 3,635,271	$ 3,485,882	$ 3,774,098	$ 3,133,230	$ 1,969,864
Restricted	2,941,461	979,094	713,814	331,051	280,078	296,692		19,749
Unrestricted deficit	(38,031,328)	(32,053,838)	(22,385,747)	(22,405,216)	(20,975,523)	(19,987,579)	(16,789,576)	(13,942,397)
TOTAL GOVERNMENTAL ACTIVITIES NET ASSETS (DEFICIT)	$ (31,223,539)	$ (27,186,249)	$ (17,692,625)	$ (18,438,894)	$ (17,209,563)	$ (15,916,789)	$ (13,656,346)	$ (11,952,784)
BUSINESS-TYPE ACTIVITIES:								
Invested in capital assets — net of related debt	$ 1,586	$ 682	$ 674	$ 674	$ 1,008	$ 847	$ 1,672	$ 1,895
Restricted	505,906	29,209	33,803	910,479	947,507	872,215	853,194	736,947
Unrestricted net assets (deficit)	289,418	810,038	689,686	(153,818)	(171,015)	(202,212)	(3,037)	(3,260)
TOTAL BUSINESS-TYPE ACTIVITIES NET ASSETS	$ 796,910	$ 839,929	$ 724,163	$ 757,335	$ 777,500	$ 670,850	$ 851,829	$ 735,582
PRIMARY GOVERNMENT:								
Invested in capital assets — net of related debt	$ 3,867,914	$ 3,889,177	$ 3,979,982	$ 3,635,945	$ 3,486,890	$ 3,774,945	$ 3,134,902	$ 1,971,759
Restricted	3,447,367	1,008,303	747,617	1,241,530	1,227,585	1,168,907	853,194	756,696
Unrestricted deficit	(37,741,910)	(31,243,800)	(21,696,061)	(22,559,034)	(21,146,538)	(20,189,791)	(16,792,613)	(13,945,657)
TOTAL PRIMARY GOVERNMENT NET ASSETS (DEFICIT)	$ (30,426,629)	$ (26,346,320)	$ (16,968,462)	$ (17,681,559)	$ (16,432,063)	$ (15,245,939)	$ (12,804,517)	$ (11,217,202)

COMMONWEALTH OF PUERTO RICO

CHANGES IN FUND BALANCES (DEFICIT) OF GOVERNMENTAL FUNDS (UNAUDITED)
ALL GOVERNMENTAL FUND TYPES
LAST TEN FISCAL YEARS
(In thousands)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
REVENUES:										
Taxes:										
Income	$ 5,109,313	$ 5,191,042	$ 5,493,881	$ 6,389,973	$ 6,181,995	$ 5,564,673	$ 5,061,761	$ 4,874,795	$ 4,843,852	$ 4,536,840
Excise	1,145,538	1,118,283	1,306,416	1,475,311	2,013,998	2,101,216	1,924,610	1,894,729	1,713,098	1,788,992
Sales and use tax	1,094,208	1,081,918	910,609	583,639	-	-	-	-	-	-
Other	326,342	103,348	11,356	4,663	15,145	7,128	19,211	3,055	1,963	92,024
Charges for services	600,473	758,427	664,505	757,724	828,993	702,691	750,978	780,905	535,423	645,806
Intergovernmental	6,655,543	5,767,738	4,569,457	5,166,604	4,663,422	4,319,977	3,654,766	4,107,706	3,634,358	3,807,049
Interest and investment earnings	56,145	114,699	160,926	176,674	117,080	116,686	58,914	85,565	90,940	67,020
Other	278,874	540,854	455,439	434,024	334,591	869,338	629,426	436,668	839,240	270,711
Total revenues all governmental fund types	15,266,436	14,676,309	13,572,589	14,988,612	14,155,224	13,681,709	12,099,666	12,183,423	11,658,874	11,208,442
EXPENDITURES:										
General government	1,830,482	1,512,909	1,769,498	2,537,999	2,489,093	1,675,428	1,777,365	1,774,156	1,279,750	739,009
Public safety	2,207,228	2,071,001	2,134,919	1,864,256	2,108,152	2,409,668	1,765,199	1,424,846	1,659,280	1,623,362
Health	2,785,439	2,762,476	2,345,650	1,948,201	1,429,888	2,344,522	2,176,741	1,908,717	1,983,727	954,563
Public housing and welfare	3,553,699	3,428,546	3,098,684	3,048,585	3,130,373	3,320,849	2,738,016	2,953,189	2,726,129	2,315,899
Education	4,584,792	5,053,505	4,432,880	4,400,321	4,101,980	4,177,664	3,474,013	3,297,248	3,343,002	2,308,479
Economic development	249,899	688,460	415,976	533,253	516,444	706,066	868,926	428,621	637,794	170,937
Intergovernmental	533,762	613,033	470,395	593,247	409,727	-	528,829	465,699	466,169	222,721
Capital outlays	293,298	352,582	429,238	512,824	502,348	665,630	581,788	1,184,976	507,634	1,020,344
Payments of obligations of component units	196,898	136,415	-	-	-	-	-	-	-	-
Debt service:										
Principal	2,009,870	482,742	2,163,704	904,604	446,281	391,554	526,572	330,346	2,062,059	466,467
Interest and other	1,369,445	1,094,142	1,037,136	814,723	822,234	733,931	737,502	1,158,749	614,347	545,001
Total expenditures all governmental fund types	19,614,812	18,195,811	18,298,080	17,158,013	15,956,520	16,425,312	15,174,951	14,926,547	15,279,891	10,366,782
OTHER FINANCING SOURCES (USES):										
Transfers in	6,296,416	9,974,368	1,305,040	1,165,075	1,423,240	1,745,992	1,034,090	1,664,278	966,935	756,229
Transfers out	(6,030,564)	(9,723,198)	(995,225)	(822,332)	(1,180,598)	(1,253,216)	(830,832)	(1,385,218)	(779,752)	(2,864,056)
Long-term debt issued	4,754,372	5,965,925	1,921,363	1,140,356	1,518,355	1,619,562	3,001,116	2,241,190	3,107,821	834,396
Discount on bonds issued	(64,011)	(63,715)	(4,060)	-	(323)	(6,078)	(23,061)	(36,204)	(16,075)	-
Capital leases	427	292	43,850	2,975	4,580	847	2,300	58,897	-	-
Refunding bonds issued	1,163,735	237,875	2,086,240	379,498	-	-	2,372,689	1,754,686	1,636,838	329,370
Sale of capital assets	2,431	158,940	-	-	-	-	-	-	-	-
Upfront fee on swap agreements		35,980	-	-	-	-	-	-	-	-
Proceeds from termination of swap aggrements	12,231	-	-	-	-	-	-	-	-	-
Termination fee on swap agreements	(40,849)	(74,671)	-	-	-	-	-	-	-	-
Payment for refunding of bonds	(1,047,297)	(183,000)	-	-	-	-	-	-	-	-
Bond proceeds— premium	18,045	34,842	-	-	-	-	-	-	-	-
Special item: payment of debt by COFINA	-	-	3,749,348	-	-	-	-	-	-	-
Special item: escrow restructuring	-	175,102	-	-	-	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	(4,507,828)	-	-	-	(2,316,910)	(1,754,686)	(1,665,811)	(227,369)
Other	-	-	106,107	-	54,135	-	-	-	327,785	-
Total other financing sources (uses) all governmental fund types	5,064,936	6,538,740	3,704,835	1,865,572	1,819,389	2,107,107	3,239,392	2,542,943	3,577,741	(1,171,430)
NET CHANGE IN FUND BALANCES (DEFICIT)	$ 716,560	$ 3,019,238	$ (1,020,656)	$ (303,829)	$ 18,093	$ (636,496)	$ 164,107	$ (200,181)	$ (43,276)	$ (329,770)

The annual special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation, collected by the Municipal Revenue Collection Center on the Commonwealth’s behalf, is presented as intergovernmental revenue from 2002 henceforth but as property tax in prior years.

COMMONWEALTH OF PUERTO RICO

FUND BALANCES (DEFICIT) OF GOVERNMENTAL FUNDS (UNAUDITED)
LAST EIGHT FISCAL YEARS
MODIFIED-ACCRUAL BASIS OF ACCOUNTING
(In thousands)

	2010	2009	2008	2007	2006	2005	2004	2003
GENERAL FUND:								
Reserved	$ 1,252,903	$ 1,247,211	$ 723,634	$ 993,320	$ 770,628	$ 810,314	$ 1,102,232	$ 262,758
Unreserved deficit	(1,800,199)	(2,682,838)	(2,494,519)	(1,504,478)	(1,154,383)	(1,321,585)	(1,468,182)	(342,941)
TOTAL GENERAL FUND	$ (547,296)	$(1,435,627)	$(1,770,885)	$ (511,158)	$ (383,755)	$ (511,271)	$ (365,950)	$ (80,183)
ALL OTHER GOVERNMENTAL FUNDS:								
Reserved	$ 2,393,393	$ 2,053,409	$ 11,667	$ 125,756	$ 73,346	$ 45,546	$ 72,455	$ 33,047
Unreserved reported in:								
Debt service funds	482,301	668,132	127,577	131,782	143,732	156,564	119,830	168,928
Special revenue funds	114,768	249,891	200,929	137,286	358,452	256,949	449,455	506,252
Capital project funds	233,679	424,480	520,576	223,443	219,163	437,923	744,577	228,215
TOTAL ALL OTHER GOVERNMENTAL FUNDS	$ 3,224,141	$ 3,395,912	$ 860,749	$ 618,267	$ 794,693	$ 896,982	$ 1,386,317	$ 936,442

COMMONWEALTH OF PUERTO RICO

GENERAL FUND NET REVENUES FOR THE LAST TEN FISCAL YEARS (UNAUDITED)
(In thousands)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Administrative measures	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 244,097	$ -
Excises on off-shore shipments										
rum	352,301	404,265	356,827	377,872	346,272	341,166	328,921	309,958	314,253	286,890
Custom duties	-	3,269	4,846	14,504	9,553	26,731	34,266	25,918	30,595	43,154
From noninternal revenues	352,301	407,534	361,673	392,376	355,825	367,897	363,187	335,876	588,945	330,044
Miscellaneous	314,754	284,436	466,742	330,064	331,803	430,534	379,501	314,857	238,116	210,665
Transfer from nonbudgeted funds	-	-	-	-	-	-	-	123,600	80,000	89,093
Electronic lottery	80,006	75,213	105,298	71,815	55,212	68,011	86,115	89,443	57,897	70,211
Traditional lottery	42,826	51,480	46,636	73,014	62,729	64,638	65,387	67,621	61,358	57,482
Nontax revenues	437,586	411,129	618,676	474,893	449,744	563,183	531,003	595,521	437,371	427,451
Alcoholic beverages and others	15,339	14,307	16,014	15,179	14,804	14,528	14,200	13,518	14,805	15,182
Entertainment machines	18,712	19,263	19,682	16,930	16,981	15,019	14,393	13,932	12,874	11,322
Motor vehicles	61,717	62,853	51,994	65,501	59,525	55,669	55,638	58,426	54,896	49,834
Licenses	95,768	96,423	87,690	97,610	91,310	85,216	84,231	85,876	82,575	76,338
Others	1,864	5,159	7,224	20,235	25,681	29,927	24,334	20,539	64,626	16,686
Hotel rooms	-	-	-	-	-	-	-	9,056	-	-
5% general excise tax	-	-	-	193,949	551,723	557,323	535,381	505,709	486,302	508,972
Crude oil and derived products	-	-	-	-	-	-	-	12,925	38,619	1,901
Slot machines	23,273	23,764	23,492	23,128	23,167	85,513	76,966	90,018	36,953	-
Cement	1,195	1,555	2,054	2,627	2,919	3,228	3,432	3,279	3,426	2,707
Insurance premiums	24,089	26,816	42,060	39,052	43,055	28,324	27,217	26,771	24,290	22,845
Horse races	22,862	25,245	26,783	29,321	30,786	31,463	28,865	28,872	22,033	18,893
Motor vehicle	350,764	310,920	366,341	396,667	533,957	606,662	551,181	499,252	418,024	406,252
Petroleum products	4,695	4,335	8,401	6,028	5,146	5,143	4,934	5,860	5,095	7,046
Cigarettes	182,501	129,429	119,124	132,399	135,267	146,527	144,733	149,487	116,055	119,135
General taxes — total	611,243	527,223	595,479	843,406	1,351,701	1,494,110	1,397,043	1,351,768	1,215,423	1,104,437

(Continued)

COMMONWEALTH OF PUERTO RICO

GENERAL FUND NET REVENUES FOR THE LAST TEN FISCAL YEARS (UNAUDITED)
(In thousands)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Other beverages	$ 19,081	$ 19,248	$ 19,026	$ 18,932	$ 18,745	$ 19,692	$ 17,428	$ 17,884	$ 18,234	$ 13,101
Beer	211,785	203,386	198,879	207,813	219,379	221,902	217,568	223,309	179,737	177,448
Distilled spirits	53,930	54,767	50,189	52,283	54,056	56,641	61,306	58,389	51,734	46,963
Alcoholic beverages — total	284,796	277,401	268,094	279,028	292,180	298,235	296,302	299,582	249,705	237,512
Excise taxes — total	896,039	804,624	863,573	1,122,434	1,643,881	1,792,345	1,693,345	1,651,350	1,465,128	1,341,949
Sales and use tax	540,348	797,194	911,000	582,560						
Inheritance and gift taxes	3,617	5,064	6,600	4,663	9,466	7,129	15,691	2,825	1,962	7,475
Taxes on dividends to 10%	29,774	48,663	59,770	138,859	66,721	80,398	70,192	49,790	62,548	58,580
Interest subject to 17%	9,902	11,738	13,657	12,112	11,536	10,489	10,108	11,278	14,310	14,782
Tollgate tax	15,034	19,372	21,610	25,083	27,396	22,973	31,579	45,321	59,515	49,511
Withholding to nonresidents	830,352	1,081,739	1,087,782	933,728	921,260	612,005	631,100	517,141	583,256	696,835
Partnerships	1,688	1,839	1,942	2,960	2,787	3,245	3,005	2,101	2,670	3,026
Corporations	1,682,321	1,375,596	1,565,534	2,002,718	1,872,458	1,870,937	1,831,027	1,776,985	1,706,137	1,696,766
Individuals	2,593,598	2,648,261	2,759,305	3,071,655	3,087,748	2,885,903	2,720,920	2,767,678	2,449,982	2,259,090
Income taxes — total	5,706,634	5,989,466	6,427,200	6,774,338	5,999,372	5,493,079	5,313,622	5,173,119	4,880,380	4,786,065
Property taxes	227,812	1,011	219	800	1,106	3,949	-	-	-	287
Tax revenues	6,926,253	6,891,524	7,378,682	7,995,182	7,735,669	7,374,589	7,091,198	6,910,345	6,428,083	6,204,639
From internal revenues	7,363,839	7,302,653	7,997,358	8,470,075	8,185,413	7,937,772	7,622,201	7,505,866	6,865,454	6,632,090
Total	$7,716,140	$7,710,187	$8,359,031	$8,862,451	$8,541,238	$8,305,669	$7,985,388	$7,841,742	$7,454,399	$6,962,134

Note: The net revenue presented above include the actual revenue and the operating transfers-in from other funds presented in the statement of revenues and expenditures — budget and actual — budget basis.
Source: Puerto Rico Treasury Department.

(Concluded)

COMMONWEALTH OF PUERTO RICO

LEGAL DEBT MARGIN INFORMATION (UNAUDITED)
LAST TEN FISCAL YEARS
(In thousands)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Internal revenue average for two years	$7,333,246	$7,650,006	$8,233,717	$ 8,327,744	$8,061,593	$7,779,987	$7,564,034	$7,185,660	$6,748,772	$6,639,861
Legal debt limit — 15% of internal revenue average for two years	1,099,987	1,147,501	1,235,058	1,249,162	1,209,239	1,166,998	1,134,605	1,077,849	1,012,316	995,979
Maximum debt service requirement	826,812	785,298	785,298	719,927	680,742	630,685	598,547	599,611	521,035	588,359
Additional legal debt service requirement margin	273,175	362,203	449,760	529,235	528,497	536,313	536,058	478,238	491,281	407,620
Total maximum debt service requirement as a percentage of internal revenue average for two years	11.27 %	10.27 %	9.54 %	8.64 %	8.44 %	8.11 %	7.91 %	8.34 %	7.72 %	8.86 %

Legal debt margin calculation for fiscal year 2010:	
Internal revenue for the year ended June 30, 2009	$ 7,302,653
Internal revenue for the year ended June 30, 2010	7,363,839
Total internal revenue for the years ended June 30, 2009 and 2010	14,666,492
Internal revenue average for the two years	7,333,246
Legal debt limit — 15% of internal revenue average for the two years	1,099,987
Maximum debt service requirement	826,812
Additional legal debt service requirement as a percentage of internal revenue average for two years	$ 273,175

Sources: Government Development Bank for Puerto Rico, General obligation debt service may not exceed 15% of the average of the internal revenues for the last two fiscal years.

COMMONWEALTH OF PUERTO RICO

RATIO OF ANNUAL DEBT SERVICE FOR GENERAL
BONDED DEBT TO TOTAL GENERAL EXPENDITURES (UNAUDITED)
LAST TEN FISCAL YEARS
(In thousands)

	Total Debt Service	Total Governmental Expenditures	Ratio
Fiscal year:			
2010	$ 936,971	$ 19,614,812	4.8%
2009	413,967	18,195,811	2.3
2008	671,917	18,298,080	3.7
2007	606,800	17,158,013	3.5
2006	565,137	15,849,707	3.6
2005	491,394	16,425,312	3.0
2004	459,336	15,174,951	3.0
2003	362,136	14,926,547	2.4
2002	608,674	15,279,891	4.0
2001	538,436	10,366,782	5.2

COMMONWEALTH OF PUERTO RICO

DEMOGRAPHIC AND ECONOMIC STATISTICS (UNAUDITED)
LAST TEN FISCAL YEARS

	Population *		Per Capita Income		Median Age		Life Expectancy (Years) (1)		School Enrollment	Labor Force (in thousands)	Unemployment Rate (%)	Gross Product (Current Prices $)**		Real Gross Product (2000 Prices $)**	
Fiscal year:															
2010	3,973		15,203	(p)	36.3		77.7		671,154	1,313	16.0	63,292	(p)	39,907	(p)
2009	3,961	(r)	14,786	(r)	36.3	(r)	77.7	(r)	649,692	1,349	13.4	62,678	(r)	41,464	(r)
2008	3,948	(r)	14,217	(r)	37.5	(r)	77.7	(r)	685,348	1,368	11.0	61,665	(r)	43,205	(r)
2007	3,935	(r)	13,244		37.0	(r)	77.7	(r)	710,861	1,409	10.4	59,521	(r)	44,475	
2006	3,920	(r)	12,970		36.5	(r)	77.7	(r)	731,644	1,422	11.7	56,732		45,009	
2005	3,903	(r)	12,507		36.0	(r)	77.7	(r)	714,306	1,385	10.6	53,752		44,785	
2004	3,887	(r)	11,724		35.6	(r)	77.2		764,861	1,360	11.4	50,709		43,950	
2003	3,869	(r)	11,429		35.1	(r)	77.5		746,500	1,352	12.1	47,479		42,795	
2002	3,849	(r)	10,921		34.7	(r)	77.1		808,408	1,309	12.1	45,071		41,915	
2001	3,828	(r)	10,732		34.2	(r)	76.9		746,124	1,278	10.5	44,047		42,040	

Source: Puerto Rico Planning Board, Department of Education, Department of Labor and Human Resources, and General Council of Education of the Commonwealth of Puerto Rico. The enrollment in private schools is an estimate.

* Population as of July 1 (in thousands).
** Amounts expressed in millions.
(1) Based on most recent study of 2006.
(p) Preliminary figures.
(r) Revised figures.

COMMONWEALTH OF PUERTO RICO

AVERAGE EMPLOYMENT BY SECTOR (UNAUDITED)
LAST TEN FISCAL YEARS
(In thousands)

Sector	2010 (p)	2009	2008	2007	2006	2005	2004		2003	2002	2001
Agriculture	17	19	15	16	22	26	25		24	23	21
Manufacturing	102	112	129	135	136	138	136		134	137	157
Mining	a/	1	1	1	a/	1	a/		a/	a/	a/
Construction	54	68	82	94	88	87	88		82	84	84
Trade	240	244	257	260	271	261	253		252	236	239
Finance, insurance, and real estate	41	43	43	45	46	43	41		42	42	39
Transportation, communications, and public utilities	57	57	54	53	58	59	55	(r)	57	62	56
Services	330	353	359	364	355	349	340		328	311	298
Government (1)	261	271	279	296	280	274	268		269	257	248
Total	1,102	1,168	1,219	1,264	1,256	1,238	1,206		1,188	1,152	1,142

(p) Preliminary figures.
a/ Less than 1,000.
(r) Figures revised in accordance with the Census of Population and Housing of 2000.
(1) Includes the Commonwealth, its municipalities, and federal government, and excludes public corporations.
Sources: Puerto Rico Department of Labor and Human Resources, Household Survey, and Puerto Rico Planning Board.

COMMONWEALTH OF PUERTO RICO

TOURISM INDICATORS (UNAUDITED)
LAST TEN FISCAL YEARS

	2010 (p)	2009 (r)	2008	2007	2006	2005	2004	2003	2002	2001
All hotels and hostelry registration	2,029,208	1,936,662 (r)	1,196,890	2,044,097	2,160,455	2,097,606	2,008,730	1,964,963	1,821,274	1,836,377
Occupancy rates	62.2 %	63.4 %	67.6 %	68.7 %	67.9 %	67.7 %	68.9 %	64.9 %	67.8 %	66.7 %
Number of rooms	14,076	13,430 (r)	13,269 (r)	13,402 (r)	13,424 (r)	13,321 (r)	12,751 (r)	12,850	11,759	11,438
Visitors' expenditures*	$ 3,598	$ 3,473	$ 3,535	$ 3,414	$ 3,369	$ 3,239	$ 3,024	$ 2,677	$ 2,486	$ 2,728

* Amounts expressed in millions of dollars.
(p) Preliminary figures.
(r) Revised figures.

Sources: Puerto Rico Tourism Company and Puerto Rico Planning Board.

COMMONWEALTH OF PUERTO RICO

OPERATING INDICATORS BY FUNCTION (UNAUDITED)
LAST TEN FISCAL YEARS

Function	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Fire protection:										
Number of stations	95	95	95	94	94	94	98	93	93	92
Fire personnel and officers	1,889	2,225	2,232	2,232	2,233	2,233	1,851	1,894	1,867	1,852
Calls answered	14,021	9,698	10,146	10,441	10,435	11,514	10,716	12,340	13,256	14,271
Building inspections conducted	76,246	83,626	71,006	73,478	73,360	71,610	56,093	53,750	41,415	31,693
Police protection:										
Number of stations	210	193	233	238	238	234	231	228	235	239
Police personnel and officers	18,274	18,834	19,422	19,069	20,552	20,806	21,185	21,079	20,468	20,800
Calls answered	7,271	7,451	7,258	7,101	7,146	7,178	6,907	5,538	4,673	4,957
Water system:										
Customers	1,279,757	1,265,798	1,257,336	1,290,497	1,285,732	1,251,699	1,256,981	1,238,461	1,209,834	1,195,038
Personnel	5,001	5,617	5,839	5,830	5,544	5,459	5,442	5,580	5,633	5,525
Water consumption (millions of cubic meters)	325	331	327	350	365	356	359	350	349	348
Electric distribution system:										
Customers	1,469,493	1,458,636	1,449,221	1,452,529	1,450,227	1,438,699	1,419,602	1,401,301	1,383,888	1,365,668
Personnel	8,804	9,332	9,429	9,444	9,541	9,712	9,635	9,646	9,652	9,582
Electricity consumption (millions of kilowatt)	19,235	18,516	19,602	20,672	20,620	20,507	20,260	19,887	19,130	18,723
Electricity production (millions of kilowatt)	23,580	22,651	23,935	25,082	24,870	24,500	24,100	23,717	22,514	22,132
Education:										
Enrollment in public schools (1):										
Kindergarten to sixth grade	264,049	262,234	276,291	293,781	306,073	323,270	321,653	326,606	334,929	341,467
Seventh to ninth grade	124,343	122,506	128,641	133,171	135,166	137,717	142,305	146,896	146,837	145,858
Tenth to twelfth grade	104,731	103,255	108,028	117,205	122,251	118,491	116,829	118,519	117,072	119,162
Teachers actively teaching (in public school)	46,472	45,268	45,064	45,124	46,064	46,858	47,286	46,772	46,591	45,968
Enrollment in private schools:										
Kindergarten to sixth grade	11,614	97,004	105,724	103,442	107,358	83,548	117,622	98,719	135,655	90,577
Seventh to ninth grade	32,144	33,510	35,437	33,294	32,850	27,612	37,226	31,245	41,273	27,366
Tenth to twelfth grade	29,773	31,183	31,227	29,968	27,946	23,668	29,226	24,515	32,642	21,694
Enrollment in universities and colleges:										
Public	71,569	69,475	68,132	66,990	68,813	71,044	74,056	74,801	73,974	73,846
Private	177,803	166,143	157,306	158,412	140,734	136,650	132,735	125,041	117,578	100,704

Source: Various agencies and component units of the Commonwealth of Puerto Rico. The enrollment in private schools is an estimate.
(1) The enrollment in public schools for 2007–2008 don't include the special education by grade.

Commonwealth of Puerto Rico

Comprehensive Annual Financial Report
Year Ended June 30, 2011

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2011

Commonwealth of Puerto Rico

Honorable Luis G. Fortuño Burset
Governor

Prepared by:

Puerto Rico Department of the Treasury

Jesús F. Méndez Rodríguez, CPA
Secretary of the Treasury

Jaysel D. Chevres Santiago, CPA
Assistant Secretary of Central Accounting

This document is available on the Puerto Rico Department of the Treasury homepage
On the World Wide Web: http://www.hacienda.gobierno.pr

COMMONWEALTH OF PUERTO RICO

TABLE OF CONTENTS

INTRODUCTORY SECTION

CPA JESUS F. MENDEZ RODRIGUEZ
SECRETARY OF TREASURY

April 27, 2012

The Honorable Governor of Puerto Rico,
Members of the Legislature, and People of Puerto Rico:

It is my pleasure to present the Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Puerto Rico (the "Commonwealth") for the fiscal year ended June 30, 2011. This report, presented in three sections, Introductory, Financial, and Statistical, is the primary means of reporting the Commonwealth's financial activities.

The Introductory Section includes this letter of transmittal, general information about the Commonwealth, a list of the Commonwealth's principal elected and appointed officials and an organizational chart. The Financial Section includes the independent auditors' report, management's discussion and analysis (MD&A), the audited basic financial statements as listed in the table of contents and the notes thereto and the required supplementary information. The statistical section set forth selected unaudited financial and demographic information for the Commonwealth on a multiyear basis.

Profile of the Commonwealth

The Puerto Rico Department of the Treasury is responsible for the preparation of this report. The responsibility for the accuracy of presented data and the completeness and fairness of the presentation, including all of the disclosures, rests on the Commonwealth's management. To the best of our knowledge and belief, the following data, as presented, is accurate in all material respects and is presented in a manner designed to set forth the financial position and the results of operations of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth as of June 30, 2011 and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America. We have included all the necessary disclosures to enable the reader to gain a thorough understanding of the Commonwealth's activities.

The financial reporting entity consists of the primary government, other organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and it is able to either impose its will on that organization or there is a

potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it. Certain component units, despite being legally separate from the primary government, are blended with the primary government. Blended component units provide services exclusively to the Commonwealth and thus are reported as if they were part of the primary government. The Commonwealth has four blended component units.

Discretely presented component units are legally separate from the primary government and are reported as discretely presented component units because the Commonwealth appoints a majority of these organizations governing bodies and either is able to impose its will on them or a financial benefit/burden situation exists. Discretely presented component units, both major and nonmajor, are reported in a separate column in the government wide financial statements to emphasize that they are not part of the primary government and to differentiate their financial position and results of operations from those of the primary government. The Commonwealth has 49 discretely presented component units of which six are considered major component units and 43 nonmajor component units.

In addition, the Commonwealth has three (3) fiduciary component units which have been omitted from the government-wide financial statements, as their resources are not available to fund the operations of the Commonwealth.

Generally, each component unit issues audited financial statements, which can be obtained from the component unit's administrative offices. The basic financial statements included in the financial section of this CAFR provide descriptions of the operations of each of the following component units of the Commonwealth:

Blended Component Units:

Public Buildings Authority

Puerto Rico Maritime Shipping Authority

Puerto Rico Sales Tax Financing Corporation

The Children's Trust

Discretely Presented Component Units:

Major Component Units:

Government Development Bank for Puerto Rico

Puerto Rico Highways and Transportation Authority

Puerto Rico Electric Power Authority

Puerto Rico Aqueduct and Sewer Authority

University of Puerto Rico

Puerto Rico Health Insurance Administration

Nonmajor Component Units:

Agricultural Enterprise Development Administration

Automobile Accidents Compensations Administration

Cardiovascular Center Corporation of Puerto Rico and the Caribbean

Company for the Integral Development of the Península de Cantera

Corporation for the Caño Martín Peña ENLACE Project

Corporation for the Development of the Art, Science and Film Industry of Puerto Rico

Culebra Conservation and Development Authority

Economic Development Bank for Puerto Rico

Employment and Training Enterprises Corporation

Farm Insurance Corporation of Puerto Rico

Fine Arts Center Corporation

Governing Board of the 9-1-1 Service

Institute of Puerto Rican Culture

Institutional Trust of the National Guard of Puerto Rico

Land Authority of Puerto Rico

Musical Arts Corporation

National Parks Company of Puerto Rico

Port of the Americas Authority

Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives

Puerto Rico Conservatory of Music Corporation

Puerto Rico Convention Center District Authority

Puerto Rico Council on Higher Education

Puerto Rico Government Investment Trust Fund

Puerto Rico Industrial Development Company

Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority

Puerto Rico Infrastructure Financing Authority

Puerto Rico Land Administration

Puerto Rico and Municipal Islands Maritime Transport Authority

Puerto Rico Medical Services Administration

Puerto Rico Metropolitan Bus Authority

Puerto Rico Municipal Finance Agency

Puerto Rico Ports Authority

Puerto Rico Public Broadcasting Corporation

Puerto Rico Public Private Partnerships Authority

Puerto Rico School of Plastic Arts

Puerto Rico Telephone Authority

Puerto Rico Tourism Company

Puerto Rico Trade and Export Company

Right to Employment Administration

Special Communities Perpetual Trust

Solid Waste Authority

State Insurance Fund Corporation

University of Puerto Rico Comprehensive Cancer Center

Fiduciary Component Units:

Employees' Retirement System of the Government of the Commonwealth of Puerto Rico

Puerto Rico Judiciary Retirement System

Puerto Rico System of Annuities and Pensions for Teachers

Independent Auditors

Commonwealth statutes require an annual audit by independent certified public accountants. The firm of Deloitte & Touche LLP was selected by the Commonwealth to perform the audit of the basic financial statements in accordance with auditing standards generally accepted in the United States of America for the fiscal year 2011. The goal of an independent audit is to provide reasonable assurance that the financial statements of the Commonwealth for the fiscal year ended June 30, 2011 are fairly stated in all material respects in accordance with U.S. generally accepted accounting principles. The independent auditors' report on the basic financial statements is included in the financial section of this report.

Internal Controls

The management of the Commonwealth is responsible for the establishment and maintenance of internal controls that ensure that assets of the Commonwealth are protected from loss, theft, or misuse, and that adequate accounting data is compiled for the preparation of financial statements in conformity with U.S. generally accepted accounting principles. The internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (i) the cost of a control should not exceed the benefits likely to be derived; and (ii) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal assistance, the Commonwealth is also responsible for ensuring that internal controls are in place to ensure that documents and processes are in compliance with applicable laws and regulations related to such federal financial assistance programs.

Certain departments, agencies, and political subdivisions are subject to the requirements of the U.S. Office of Management and Budget Circular A-133. As a result, these entities are audited for compliance with the requirements of the federal financial assistance programs. These audits are performed at the department or agency level. The Commonwealth has provided for the possible cost disallowance that may arise from these audits, as well as from other audits that may be performed by federal grantors.

Budget and Fiscal Policy

The fiscal year of the Commonwealth begins each July 1. The Governor is constitutionally required to submit to the Legislature an annual balanced budget of capital improvements and operating expenses of the Commonwealth for the ensuing fiscal year.

The annual budget is prepared by the Puerto Rico Office of Management and Budget (OMB), working with the Puerto Rico Planning Board, the Puerto Rico Department of the Treasury, and other government offices and agencies. Section 7 of Article 6 of the Constitution provides that "*The appropriations made for any fiscal year shall not exceed the total revenue, including available surplus, estimated for the said fiscal year unless the imposition of taxes sufficient to cover the said appropriations is provided by law*".

In addition to the internal controls previously discussed, the Commonwealth maintains extensive budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Legislature. Activities of the general fund are included in the annual appropriated budget. Budgetary control resides at the department level. The Commonwealth also maintains an encumbrance accounting system as one method of maintaining budgetary control.

The annual budget, which is developed using elements of program budgeting, includes an estimate of revenue and other resources for the ensuing fiscal year under laws existing at the time the budget is submitted and legislative measures proposed by the Governor and submitted with the proposed budget, as well as the Governor's recommendations as to appropriations that in his judgment are necessary, convenient, and in conformity with the four-year investment plan prepared by the Puerto Rico Planning Board.

The Legislature may amend the budget submitted by the Governor, but may not increase items that would cause a deficit without imposing additional taxes to cover such deficit. Once approved by the Legislature, the budget is referred to the Governor, who may decrease or eliminate any item, but may not increase or insert new items in the budget. The Governor may also veto the budget in its entirety and return it to the Legislature with his objections. The Legislature, by a two-thirds majority in each house, may override the Governor's veto. If a budget is not adopted prior to the end of the fiscal year, as originally approved by the Legislature and the Governor, it is automatically renewed for the ensuing fiscal year until a new budget is approved by the Legislature and the Governor. This allows the Commonwealth to continue to pay operating and other expenses until a new budget is approved.

Governmental Activities

General governmental activities of the Commonwealth are accounted for in five major governmental funds. These funds are: general, pledged sales and use tax, debt service, COFINA special revenue, and COFINA debt service. Nonmajor governmental funds are combined in a single column in the governmental fund financial statements, and individually identified in the supplementary combining nonmajor governmental funds' financial statements of this report.

Business-type Activities

Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the government is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where the government has decided that periodic determination of net income is appropriate for accountability purposes.

The Commonwealth's major proprietary operations comprise the following activities: the Unemployment Insurance Fund and the Lotteries Fund (which includes the Lottery of Puerto Rico and the Additional Lottery System). The Disability Insurance Fund, the Drivers' Insurance Fund, the Puerto Rico Water Pollution Control Revolving Fund and the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund are all nonmajor proprietary funds combined in a single column in the proprietary fund financial statements, and individually identified in the supplementary combining nonmajor proprietary funds' financial statements of this report.

Fiduciary Operations

Fiduciary funds are used to account for assets held by the Commonwealth in a trustee capacity or as an agent for individuals, private organizations, and other governmental units. These include the pension and agency funds. Pension trust funds are established through trust agreements specifying how the fund will operate. Agency funds are custodial in nature and do not report fund balances.

The pension funds include the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico and its Instrumentalities, the Puerto Rico Judiciary Retirement System, and the Puerto Rico System of Annuities and Pensions for Teachers.

Agency funds consist of the Special Deposits Fund. This agency fund includes deposits under the custody of the Courts of Justice, Minors Support Administration for child support payments, deposits under the custody of the Commissioner of Insurance of the Commonwealth for escheated property, and for insurance companies under liquidation and an allocated share of the sales and use tax corresponding to the municipalities.

Cash Management Policies and Practices

The Commonwealth maintains a cash pool for its cash and cash equivalents. The balance in the pooled cash accounts is available to meet current operating requirements and any excess is invested in various interest-bearing accounts in the Government Development Bank for Puerto Rico, a discretely presented component unit. In addition, the Puerto Rico Government Investment Trust Fund (PRGITF) was created by the Commonwealth pursuant to Act No. 176 of August 11, 1995, as a no-load diversified collective investment trust that for the purpose of providing eligible governmental investors of Puerto Rico with a convenient and economical way to invest in a professionally managed money market portfolio. The deposits on hand and the investments purchased are not collateralized, secured, or guaranteed by the Commonwealth or any of its agencies, instrumentalities, or political subdivisions.

The Commonwealth's investment policy is to minimize credit and market risk while maintaining a competitive yield on its portfolio. The cash temporarily idle during this year was invested mainly in U.S. government securities, stocks, corporate bonds, repurchase agreements, Commonwealth securities other trading securities, and short-term investments. These are primary government investments that are restricted and unrestricted.

Capital Assets

These basic financial statements include the capital assets of the Commonwealth. A discussion of capital assets accounting is included in the MD&A that is part of the basic financial statements. More detailed information about capital assets can be found in the notes to the basic financial statements.

Debt Administration

The Commonwealth had a number of debt issues outstanding. The Commonwealth's general obligation and appropriation debt is currently rated "Baa1" by Moody's Investors Service, "BBB" by Standard & Poor's Ratings Services, and "BBB+" by Fitch, Inc.

Section 2, Article VI of the Constitution of the Commonwealth provides that direct obligations of the Commonwealth evidenced by bonds or notes are backed by the full faith, credit and taxing power of the Commonwealth shall not be issued if the amount of the principal and interest on such bonds and notes and on all such bonds and notes issued thereafter, which are payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year of such proposed issuance on account of bonds or notes guaranteed by the Commonwealth, exceed 15% of the average annual revenues raised under the provisions of the Commonwealth Legislation and deposited into the Treasury of Puerto Rico in the two fiscal years preceding the fiscal year of such proposed issuance. Section 2, Article VI of the Constitution does not limit the amount of debt that the Commonwealth may guarantee so long as the 15% limitation is not exceeded through payments by the commonwealth on such guaranteed debt. At June 30, 2011, the Commonwealth is in compliance with the debt limitation requirement. See the computation of the legal debt margin in the statistical section of this report. More detailed information about the long-term debt can be found in the notes to the basis financial statements.

Risk Financing

The Commonwealth purchases commercial insurance to cover casualty, theft, tort claims, and other losses. The current insurance policies have not been canceled or terminated. As it relates to workers' compensation, the Commonwealth's discretely presented component unit, the State Insurance Fund Corporation, provides workers' compensation to both public and private employees.

Financial Advisor and Fiscal Agent

The principal functions of the Government Development Bank for Puerto Rico are to act as financial advisor to and fiscal agent for the Commonwealth, its municipalities, and public corporations, in connection with the issuance of bonds and notes, and to make loans to private enterprises to aid the economic development of Puerto Rico.

Economic Conditions and Outlook

The Commonwealth's economy is recovering from a recession that began in the fourth quarter of fiscal year 2006. The Puerto Rico Planning Board's preliminary reports of the performance of the Puerto Rico's economy during fiscal year 2011 indicate that the economy registered a contraction of 1% compared to a contraction of 3.8% in 2010 in total real gross product. However, there are indicators that the economy is beginning to move forward, including an increase in retail sales, reduction in unemployment rate among other positive indicators.

Puerto Rico has a diversified economy with manufacturing and services comprising its principal sectors. Manufacturing is the largest sector in terms of gross domestic product. Manufacturing in Puerto Rico is now more diversified than during the earlier phases of its industrial development and includes several industries less prone to business cycles. In the last three decades, industrial development has tended to be more capital intensive and more dependent on skilled labor.

The services sector, which includes finance, insurance, real estate, wholesale and retail trade, tourism, and other services, has shown a strong interaction with manufacturing, tourism, construction, and agriculture.

In terms of per capita income in fiscal year 2011 was \$16,241; in 2010 was \$15,203; in 2009 was \$14,786; in 2008 was \$14,217; and in 2007 was \$13,244.

According to the Puerto Rico Department of Labor and Human Resources, during fiscal year 2011, the labor force was 1.28 million compared to 1.31 million in fiscal year 2010. The average unemployment rate was 15.9 % during the fiscal year 2011.

Major Initiatives

The administration has just enacted tax reform and is expected to focus now on pension reform, both intended to achieve longer term structural balance.

Tax Reform

The tax reform initiative, the final piece of which was passed by the Legislature in January 2011, is designed to replace revenues lost through significantly lower personal and corporate income tax rates with a temporary excise tax on certain manufacturers and ultimately by implementation of a source income rule for multi-national corporations. The restructuring of the tax system is intended to stimulate the economy and promote private sector investment by providing tax relief to individuals and corporations,

simplifying the tax system, and reducing tax evasion. The top corporate tax rate is reduced immediately from 41% to 30% and then to 25% in 2014 and there will be tax relief across all corporate income tax brackets. All individual tax payers will likewise have tax relief; the number of tax deductions will be reduced from 28 to 10 and the average tax rate will be reduced 49% by fiscal 2016. Act No. 1 of 2011 conditions the implementation of the tax reductions applicable to individuals and corporations after fiscal year 2014 on the Commonwealth's ability to continue its path towards fiscal stability. The Commonwealth is expecting to provide taxpayers aggregate annual savings of $1.2 billion for the next six fiscal years, commencing in taxable year 2011.

The reduction in income tax revenues resulting from the implementation of the tax reform is expected to be offset by additional revenues produced by a temporary excise tax on transactions between manufacturers and distributors that are members of the same non-resident holding or control group that produce in Puerto Rico; enhanced enforcement efforts; and increased economic activity produced by the tax relief measures.

The excise tax, enacted in December 2010 as Act 154 and effective January 1, 2011, includes tax credits for the affected companies who maintain employment of at least 90% of the current level, and will be phased out by fiscal 2016 when it is replaced by revenues from the source income rule. Such excise tax affects foreign corporations or partnerships that are principally engaged in the manufacturing of pharmaceuticals and electronics. The Commonwealth collected approximately $1.8 billion from the excise tax payments during the first year of implementation (from February 2011 through January 2012) of Act 154 and expects to raise $5.6 billion for the six-year period that the excise tax is in place.

Pension Reform

In order to address the growing unfunded pension and non-pension benefit obligations and funding shortfalls of the three government retirement systems, the Governor of Puerto Rico submitted two bills to the Legislative Assembly to address in part the retirement systems' financial condition. One of such bills was enacted as Act No. 96 on June 16, 2011 ("Act 96"). On June 23, 2011, in accordance with Act 96, $162.5 million of funds on deposit in the Corpus Account of the Puerto Rico Infrastructure Development Fund (the "Corpus Account"), which is under the custody and control of the Puerto Rico Infrastructure Financing Authority, were contributed to the Employees Retirement System and invested in capital appreciation bonds issued by COFINA maturing annually on August 1, 2043 through 2048 and accreting interest at a rate of 7%. The principal amount of the COFINA bonds will grow to an aggregate amount of approximately $1.65 billion at their maturity dates.

The second bill submitted by the Governor was enacted as Act No. 114 of July 5, 2011 ("Act 114") and Act No. 116 of July 6, 2011 ("Act 116"). These Acts provide an increase in employer contributions to the Employee Retirement System and the Teachers Retirement System of 1% of covered payroll in each of the next five fiscal years and by 1.25% of covered payroll in each of the following five fiscal years. As a result of these increases, the Employee Retirement System and the Teachers Retirement System would receive approximately $36 million and $14 million, respectively, in additional employer contributions during fiscal year 2012, and the additional employer contributions are projected to increase gradually each fiscal year (by an average aggregate increase of $71 million per fiscal year) to approximately $494 million and $195 million, respectively, by fiscal year 2021. The additional employer contributions for fiscal year 2012 have been included in the approved budget for such fiscal year.

In addition to these measures, on August 8, 2011, the Board of Trustees of the Employees Retirement System adopted a new regulation regarding the rules relating to the concession of personal loans to its members, which, among other changes, lowers the maximum amount of those loans from $15,000 to $5,000. This change is expected to improve gradually the Employees Retirement System's liquidity.

Tax Regime for Companies Doing Business in Puerto Rico

One of the benefits enjoyed by the Commonwealth is that corporations operating in Puerto Rico (other than corporations organized in the United States with a local branch) and individuals residing in Puerto Rico generally are not subject to federal income taxes on income derived in Puerto Rico. This enables the Commonwealth to utilize local tax legislation as a tool for stimulating economic development, and it has done so for many years.

Public Sector Debt

Historically, the Commonwealth has maintained, as a matter of fiscal policy, a prudent relationship between the growth of public sector debt and the growth of the economic base required to service that debt. During certain fiscal years, however, public sector debt increased at a greater rate than the rate of gross product primarily due to an increase in the amount of debt incurred to finance certain key infrastructure projects, which are important to the development of the economy and are expected to produce long-term economic benefits. In addition, certain debt was refinanced to enable Puerto Rico to benefit from the historically low levels of interest rates and realize debt service savings. During fiscal year 2011, public sector debt increased 3.7%.

Prospects for the Future

The Commonwealth is committed to research and pursue solutions to improve the Commonwealth's competitive economic performance and the quality of life for its people. The Commonwealth's economic development program is focused on initiatives aimed at producing more diversified and sustainable economic development.

In January 2009, the administration began to implement a multi-year Fiscal Stabilization Plan and Economic Reconstruction Plan, which sought to achieve fiscal balance and restore economic growth. The Fiscal Stabilization Plan was central to safeguarding the Commonwealth's investment-grade credit rating and restoring Puerto Rico's economic growth and development. The fiscal stabilization plan's operating expense reduction measures have resulted in savings of approximately $837 million, and the tax revenue enforcement measures, and the temporary and permanent revenue raising measures have resulted in additional revenues of $933 million during fiscal year 2011.

To balance the impact of the Fiscal Stabilization Plan, the administration developed and is implementing an economic reconstruction program designed to stimulate growth in the short term and lay the foundation for long-term economic development. The Economic Reconstruction Plan consists of two main components: (i) two economic stimulus programs, and (ii) a supplemental stimulus plan. The two economic stimulus programs aimed at reigniting growth and counterbalancing any adverse effects associated with the Fiscal Stabilization Plan. The Supplemental Stimulus Plan was designed to provide investment in strategic areas with the objective of laying the foundations for long-term growth in Puerto Rico. The coordinated implementation of the Supplemental Stimulus Plan is expected to reinforce continuity in reigniting economic growth while making key investments for long-term development.

In addition, the administration designed and began to implement the Strategic Model for a New Economy, a series of economic development initiatives to enhance Puerto Rico's overall economic competitiveness and strengthen specific industry sectors. The current administration is emphasizing the following initiatives to enhance Puerto Rico's competitive position: (i) overhauling the permitting process, (ii) reducing energy costs, (iii) reforming the tax system, (iv) promoting the development of various projects through public-private partnerships, (v) implementing strategic initiatives targeted at specific economic sectors, and (vi) promoting the development of certain strategic/regional projects. These economic development initiatives are intended to support the prospects of long-term and sustainable growth.

Financial and Economic Condition

The MD&A, which can be found immediately following the independent auditors' report, provides an overview of the Commonwealth's financial activities addressing both governmental and business activities reported in the government wide financial statements. In addition, the MD&A focuses on the Commonwealth's major funds. Component units and fiduciary activities are excluded from the MD&A. Furthermore, the MD&A provides an overview of additional economic factors affecting the Commonwealth.

Acknowledgements

The preparation of this report requires the collective efforts of numerous finance personnel throughout the Commonwealth and is made possible only with the cooperation and support of the Executive, Legislative, and Judicial branch agencies, and component units of the Commonwealth. I sincerely appreciate the dedicated efforts of all these individuals.

The report could not have been accomplished without the professionalism and dedication of Jaysel D. Chevres, as well as the rest of personnel of the Central Government Accounting area. This report confirms our commitment to the people of Puerto Rico, the Governor, the Legislature, and the financial community to maintain our basic financial statements in conformity with the highest standards of financial accountability.

Respectfully submitted,

Hon. Jesús F. Méndez Rodríguez, CPA
Secretary of the Treasury

COMMONWEALTH OF PUERTO RICO

PRINCIPAL OFFICIALS

Luis G. Fortuño Burset
Governor

Members of the Cabinet

Marcos Rodríguez Ema
Chief of Staff

Kenneth D. McClintock Hernández
Secretary of State

Guillermo A. Somoza Colombani
Secretary of Justice

Jesús F. Méndez Rodríguez
Secretary of the Treasury

Edward Moreno Alonso
Acting Secretary of Education

Miguel A. Romero Lugo
Secretary of Labor and Human Resources

Lorenzo González Feliciano
Secretary of Health

Miguel Santiago Córdova
Acting Secretary of Agriculture

Rubén A. Hernández Gregorat
Secretary of Transportation and Public Works

José R. Pérez Riera
Secretary of Economic Development and Commerce

Yanitsia Irizarry Méndez
Secretary of Family Affairs

Miguel B. Hernández Vivoni
Secretary of Housing

Daniel J. Galán Kercadó
Secretary of Natural and Environmental Resources

Luis G. Rivera Marín
Secretary of Consumer Affairs

Henry E. Neumann Zayas
Secretary of Sports and Recreation

Jesús González Cruz
Secretary of Corrections and Rehabilitation

LEGISLATIVES OFFICERS

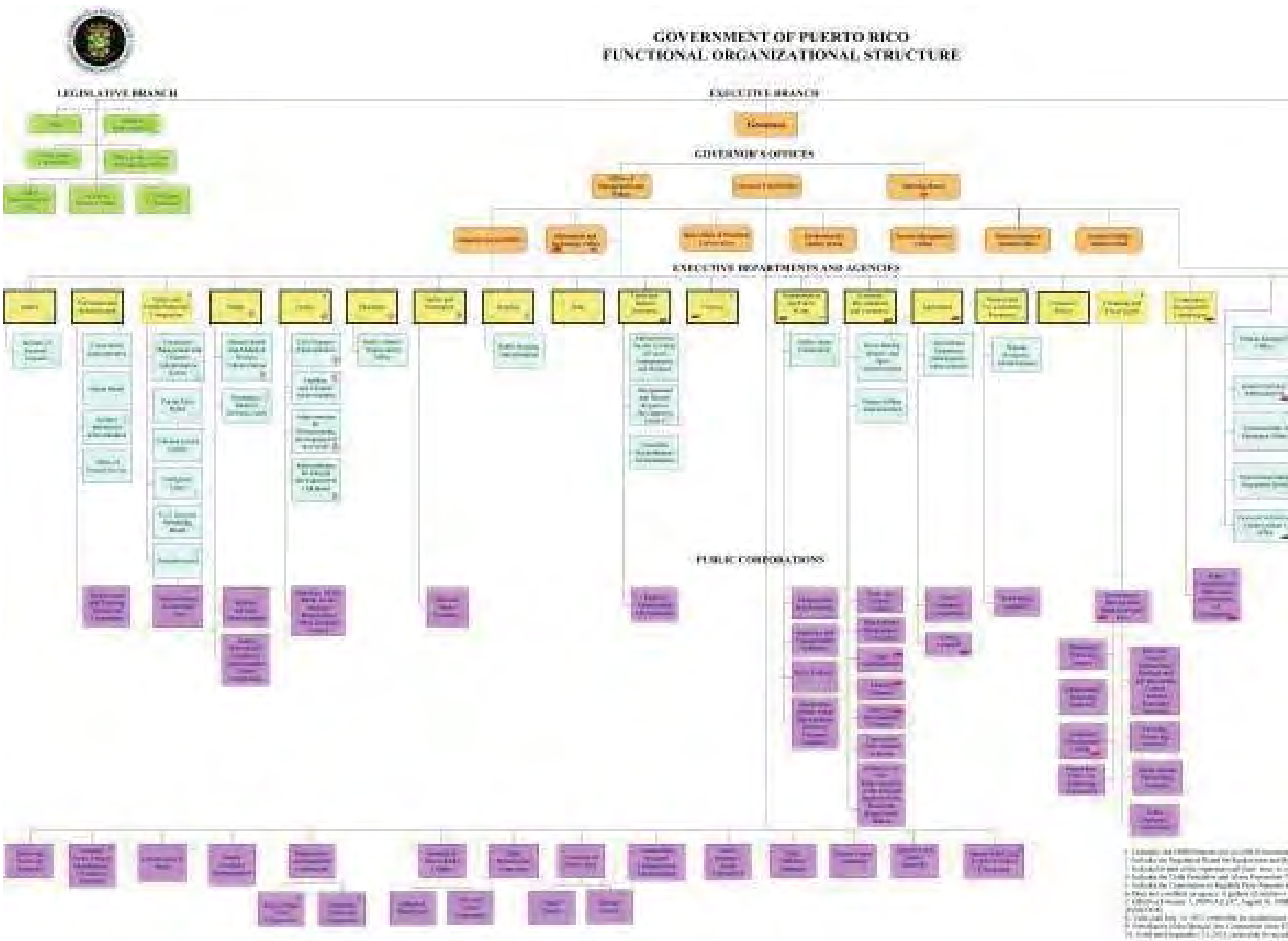
Thomas Rivera Schatz
President, Senate

Jenniffer González Colón
Speaker, House of Representatives

FISCAL OFFICERS

Juan Carlos Pavía
Director, Office of Management and Budget

Juan Carlos Batlle
President, Government Development Bank for Puerto Rico


GOVERNMENT OF PUERTO RICO
FUNCTIONAL ORGANIZATIONAL STRUCTURE
LEGISLATIVE BRANCH
EXECUTIVE BRANCH
GOVERNOR'S OFFICES
EXECUTIVE DEPARTMENTS AND AGENCIES
PUBLIC CORPORATIONS

FINANCIAL SECTION

Deloitte.

Deloitte & Touche LLP
Torre Chardon
350 Chardon Ave.
Suite 700
San Juan, PR 00918-2140
USA

Tel: +1 787 759 7171
Fax: +1 787 756 6340
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Honorable Governor and Legislature
Commonwealth of Puerto Rico
San Juan, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Puerto Rico (the "Commonwealth"), as of and for the year ended June 30, 2011, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of the following activities, funds, and component units:

- Puerto Rico Public Housing Administration, Human Resources and Occupational Development Council, the Office for the Administration of the Assets of the Urban Renovation and Housing Corporation of the Commonwealth of Puerto Rico, and the Office for the Improvements of Public Schools, which collectively represent 20% and 4%, respectively, of the assets and revenues of the governmental activities and 28% and 4%, respectively, of the assets and revenues of the general fund;

- The Unemployment Insurance Fund, which is both a major fund and 35% and 42%, respectively, of the assets and revenues of the business-type activities. The Additional Lottery System, which represents 78% and 46%, respectively, of the assets and revenues of the lotteries fund and 12% and 44%, respectively, of the assets and revenues of the business-type activities. The Disability Insurance Fund, the Drivers' Insurance Fund, the Puerto Rico Water Pollution Control Revolving Fund and the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund, which represent 54% and 4%, respectively, of the assets and revenues of the business-type activities and 6% and 2%, respectively, of the assets and revenues of the aggregate remaining fund information;

- Public Buildings Authority special revenue, debt service, and capital project funds; The Children's Trust special revenue and debt service funds; and the Puerto Rico Maritime Shipping Authority debt service fund, which collectively represent 5% and .05%, respectively, of the assets and revenues of the governmental activities and 6% and .28%, respectively, of the assets and revenues of the aggregate remaining fund information;

- Entities identified in note 2 that are presented as discretely presented component units, which collectively represent 72% and 91%, respectively, of the assets and revenues of the aggregate discretely presented component units.

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the activities, funds, and component units indicated above, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commonwealth's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth, as of June 30, 2011, and the respective changes in financial position and respective cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the basic financial statements, during fiscal year 2011, the Commonwealth adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.*

The management's discussion and analysis on pages 18 through 47 and the schedules of funding progress on pages 254 and 255 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Commonwealth's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Commonwealth's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of the Commonwealth's management. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

As discussed in Note 20 to the basic financial statements, the Pension Trust Funds' unfunded actuarial accrued liability and funded ratio as of June 30, 2011, were approximately $33,115 million and 11%, respectively. In the opinion of management, based on information prepared by consulting actuaries, the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico, the Commonwealth of Puerto Rico Judiciary Retirement System, and the Puerto Rico System of Annuities and Pensions for

Teachers, comprising the Pension Trust Funds, will not be able to fully fund pensions after the fiscal years 2014, 2019, and 2022, respectively, if measures are not taken to reduce the unfunded actuarial accrued liability and increase the funded ratio of the Pension Trust Funds.

Deloitte & Touche LLP

April 27, 2012

Stamp No. E26135
affixed to original.

COMMONWEALTH OF PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS [1]
JUNE 30, 2011

The following is a narrative overview and analysis of the financial activities of the Commonwealth of Puerto Rico (the "Commonwealth" or the "Government") for the fiscal year ended June 30, 2011. The management discussion and analysis ("MD&A") is intended to serve as an introduction to the basic financial statements, which have the following components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. The MD&A is designed to: (a) assist the reader in focusing on significant financial matters; (b) provide an overview of the Commonwealth's financial activities; (c) identify any material changes from the original budget; and (d) highlight individual fund matters. We encourage readers to review this information in conjunction with the Letter of Transmittal, which is located in the Introductory Section of this report, and the Commonwealth's basic financial statements, including the notes to the financial statements, which are located after this analysis. During fiscal year 2011, the Commonwealth implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement introduced new terms that are defined in Note 24 to the basic financial statements.

FINANCIAL HIGHLIGHTS – Primary Government

General Fund Highlights

- Total General Fund actual revenues on a budget basis (excluding other financing sources) for fiscal year 2011 was $8 billion, representing an increase of approximately $61.3 million, or .7%, from original budgeted revenues.

- Total actual expenditures[2] on a budget basis of $9.1 billion represented a decrease of $565 million when compared with fiscal year 2010. Furthermore, budgetary deficit as a percentage of revenues improved from 44% in 2009 to 27% in 2010 and to 14% in 2011.

- Transfers out and other payments for debt service includes lines of credits extended by GDB to the Commonwealth to refinance $490.9 million of interest accrued during such fiscal year and a portion of principal due on July 1, 2011 on the Commonwealth's general obligation bonds. These lines were repaid through the issue of PR Public Improvement Refunding Bonds Series 2011 A & C. Also, during the fiscal year 2011, PBA also used a line of credit from GDB to make payments of approximately $147.8 million of interest accrued during such fiscal year on its Commonwealth's guaranteed bonds, which line of credit was refinanced with the proceeds of a series of

[1] The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Commonwealth's management. The independent auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. Therefore, the independent auditors did not audit such information and did not express an opinion on it.

[2] Total actual expenditures include $28.7 million paid and accrued during fiscal year 2011 as part of the early retirement benefits established by Act No 70.

Commonwealth guaranteed bonds issued by PBA. This line of credit was repaid through the issue of Government Facilities Revenue Bonds Series 2011 S.

- The General Fund balance deficit for fiscal year 2011 was reduced by $296.2 million, a 54% reduction in the General Fund deficit when compared to fiscal year 2010.

Government-wide Highlights

- The Commonwealth reported a deficit in net assets at year-end of $33.7 billion, comprised of $15.1 billion in total assets offset by $48.8 billion in total liabilities.

- Total liabilities at year end were $48.8 billion, comprised of $48.5 billion in governmental activities and $349.6 million in business-type activities.

- The Commonwealth's governmental activities had total revenues and transfers of $15.9 billion, which were less than total expenses of $19.2 billion.

- The total expense of all the Commonwealth's programs, which includes $1.3 billion in business-type activities, was $20.6 billion.

Long-term Debt

- Total long-term obligations of the primary government as of June 30, 2011 were $45.7 billion, of which $1.6 billion are due within one year. Long-term obligations of the primary government increased by $2.5 billion, or 5.7%, when compared to the prior fiscal year.

MAJOR FINANCIAL ELEMENTS

Revenues – The General Fund is the primary operating fund of the Commonwealth. General Fund revenues are broadly based and include revenues raised internally as well as those from non Puerto Rico sources. Internal revenues consist principally of income, sales and use tax, excise tax and a special temporary tax on real property. Revenues from non Puerto Rico sources are derived from federal excise taxes and customs duties returned to the Commonwealth. The major source of revenue from the component units are charges for services.

Expenditures – Expenditures consist principally of grants and subsidies, personal services, other services, materials and supplies, equipment purchases, capital outlays, debt service and transfers.

Debt – Comprises bonds and notes of the Commonwealth and component units. The Commonwealth's policy has been and continues to be to prudently manage its debt within the constitutional limitation. Debt of component units, other than bond anticipation notes, is generally supported by the revenues of such units from rates charged for services or products and Commonwealth's pledged revenues. However, certain debt of component units is supported, in whole or in part, directly or indirectly, by Commonwealth appropriations or taxes. Direct debt of the Commonwealth is issued pursuant to specific legislation approved in each particular case. Debt of component units is issued in accordance with their enabling statutes. Government Development Bank for Puerto Rico ("GDB"), as fiscal agent of the Commonwealth, must approve the specific terms of each debt issuance.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the Commonwealth's basic financial statements. The Commonwealth's basic financial statements include three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. This report also contains additional required supplementary information in addition to the basic financial statements themselves.

The basic financial statements include two kinds of financial statements that present different views of the Commonwealth, the government-wide financial statements and the fund financial statements. These financial statements also include the notes to the basic financial statements that explain some of the information in the financial statements and provide more detail.

Government-wide Financial Statements

The government-wide financial statements provide a broad view of the Commonwealth's operations in a manner similar to a private sector business. The statements provide both short and long-term information about the Commonwealth's financial position, which assists in assessing the Commonwealth's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenue and expenses connected with the fiscal year even if cash involved has not been received or paid. The government-wide financial statements include two statements:

- ***Statement of Net Assets (Deficit)*** – This presents all of the government's assets and liabilities with the difference between the two reported as net assets (deficit). Over time, increases or decreases in the Commonwealth's net assets (deficit) may serve as a useful indicator of whether the financial position of the Commonwealth is improving or deteriorating.

- ***Statement of Activities*** – This presents information showing how the government's net assets (deficit) changed during the most recent fiscal year. All changes in net assets (deficit) are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the Commonwealth.

Both of the above financial statements have separate sections for three different types of Commonwealth programs or activities. These three types of activities are as follows:

- ***Governmental Activities*** **–** The activities in this section are mostly supported by taxes and intergovernmental revenue (federal grants). Most services normally associated with the Commonwealth government fall into this category, including general government, education, public housing and welfare, health, public safety and economic development.

- ***Business Type Activities*** – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business type activities of the Commonwealth include the operations of the following major funds: unemployment insurance trust fund (administered by the Commonwealth's Employment Security Bureau) and the lotteries fund.

- ***Component Units*** – These are organizations that are legally separate from the Commonwealth, but either the Commonwealth is financially accountable for them or the nature and significance of their

relationship with the Commonwealth are such that their exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. The Commonwealth has both blended and discretely presented component units.

- ***Blended Component Units*** – Although legally separate entities, these are in substance part of the primary government's operations. Therefore, data from blended component units are integrated into the appropriate funds for reporting purposes. The Commonwealth's four blended component units are:

  - Public Buildings Authority
  - Puerto Rico Maritime Shipping Authority
  - Puerto Rico Sales Tax Financing Corporation ("COFINA" by its Spanish acronym)
  - The Children's Trust

- ***Discretely Presented Component Units*** **–** These are operations for which the Commonwealth has financial accountability, but they have certain independent qualities as well. For the most part, these entities operate similar to private sector businesses and the business type activities described above. The Commonwealth's discretely presented component units are presented in two categories: (i) major; and (ii) nonmajor. This separation is determined by the relative size of the entities' assets, liabilities, revenue, and expenses in relation to the total of all component units.

  The Commonwealth's discretely presented component units are combined into a single column for reporting in the government-wide financial statements. Complete financial statements of the individual component units can be obtained from their respective administrative offices. Addresses and other additional information about the Commonwealth's component units are presented in Note 1 to the basic financial statements.

  The Commonwealth's six discretely presented major component units are:

  - Government Development Bank for Puerto Rico
  - Puerto Rico Aqueduct and Sewer Authority
  - Puerto Rico Electric Power Authority
  - Puerto Rico Health Insurance Administration
  - Puerto Rico Highways and Transportation Authority
  - University of Puerto Rico

The government-wide financial statements can be found immediately following this management's discussion and analysis.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth, like other states and local governments, uses fund accounting to help ensure and demonstrate compliance with finance related legal requirements. The fund financial statements focus on individual parts of the Commonwealth government, reporting the Commonwealth's operations in more detail than the government-wide financial statements. All of the funds of the Commonwealth can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds are the following:

- ***Governmental Funds Financial Statements*** – Most of the basic services provided by the Commonwealth are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of expendable resources. They also focus on the balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short term view of the Commonwealth's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the Commonwealth. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances (deficit) provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

  The Commonwealth has five major governmental funds. That is, each major fund is presented in a separate column in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances (deficit). The Commonwealth's five major governmental funds are:

    - The General Fund
    - The Pledged Sales and Use Tax Fund
    - The Debt Service Fund
    - The COFINA Special Revenue Fund
    - The COFINA Debt Service Fund

  The remaining nonmajor governmental funds are grouped and presented in a single column in the governmental funds financial statements. The basic governmental funds financial statements can be found immediately following the government-wide financial statements.

  The Commonwealth adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. The statement of revenue and expenditures — budget and actual — budget basis — general fund only presents the information for the general fund for which there is a legally adopted budget, as required by GAAP. See Note 3 to the basic financial statement for a reconciliation of the statement of

revenue and expenditures — budget and actual — budget basis — general fund with the statement of revenues, expenditures, and changes in fund balance (deficit) for the general fund. This statement is presented on the page immediately following the reconciliation of the statement of revenues, expenditures, and changes in fund balances (deficit) to the statement of activities — governmental funds.

- ***Proprietary Funds Financial Statements*** – These funds are used to show activities that operate more like those of commercial enterprises. Because these funds charge fees for services provided to outside customers, including local governments, they are known as enterprise funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements. The Commonwealth has two major proprietary funds: (i) the unemployment insurance trust fund (administered by the Commonwealth's Employment Security Bureau); and (ii) the lotteries fund, which includes the Lottery of Puerto Rico and the Additional Lottery System. Other nonmajor proprietary funds are grouped and presented in a separate column in the proprietary funds financial statements. The basic proprietary funds financial statements can be found immediately following the governmental fund financial statements.

- ***Fiduciary Funds and Similar Component Units Financial Statements*** – These funds are used to account for resources held for the benefit of parties outside the Commonwealth government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the Commonwealth's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. They use the accrual basis of accounting. The Commonwealth's fiduciary funds are: (i) the pension trust funds (three separate retirement systems for employees, which are fiduciary component units of the Commonwealth); and (ii) the agency funds (which account for the assets held for distribution by the Commonwealth as an agent for other governmental units, other organizations, or individuals). The basic fiduciary funds and similar component units' financial statements can be found immediately following the proprietary funds financial statements.

Component Units Financial Statements

As mentioned above, these are operations, for which the Commonwealth has financial accountability, but they have certain independent qualities as well, and they operate similar to private sector businesses. The government-wide financial statements present information for the component units in a single column on the statement of net assets (deficit). Also, some information on the statement of net assets (deficit) is aggregated for component units. The combining statements of net assets and the combining statement of activities provide detail for each major component unit and the nonmajor component units in aggregate. The combining financial statements for major component units can be found immediately following the fiduciary funds financial statements.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the basic financial statements can be found immediately following the major component units' combining financial statements.

Required Supplementary Information and Supplementary Information

The basic financial statements include a section of required supplementary information immediately following its notes. This section includes information of funding progress for the Commonwealth's three

separate retirement systems, supplemental schedule of expenditures by agency-budget and actual budget basis-general fund, nonmajor governmental funds, nonmajor proprietary funds, fiduciary funds and nonmajor discretely presented component units.

GOVERNMENT'S FISCAL STABILITY AND ECONOMIC GROWTH INITIATIVES

In January 2009, the administration began to implement a multi-year Fiscal Stabilization Plan and Economic Reconstruction Plan, which sought to achieve fiscal balance and restore economic growth. The Fiscal Stabilization Plan was central to safeguarding the Commonwealth's investment-grade credit rating and restoring Puerto Rico's economic growth and development.

To balance the impact of the Fiscal Stabilization Plan, the administration developed and is implementing an economic reconstruction program designed to stimulate growth in the short term and lay the foundation for long-term economic development.

In addition, the administration designed and began to implement the Strategic Model for a New Economy, a series of economic development initiatives to enhance Puerto Rico's overall economic competitiveness and strengthen specific industry sectors. These economic development initiatives are intended to support the prospects of long-term and sustainable growth.

Results of the Government's Fiscal Stability and Economic Growth Initiatives

The results of the Government's fiscal stability and economic growth initiatives are summarized as follows:

- General Fund revenues, on a budget basis, for fiscal year 2011 were $400 million above the previous fiscal year and $61.3 million above original budget.
- Revenues generated from the local Sales and Use Tax (IVU by its Spanish acronym) increased by 3.1% in 2011 compared to the previous year.
- Budgeted deficit as a percentage of revenues was reduced from 44% in fiscal year 2009 to 27% in fiscal year 2010; and to 14 % in 2011.
- General Fund deficit as of June 30, 2011 amounted to $251 million, a $296 million or 54% reduction when compared to a deficit of $547 million as of June 30, 2010 and an 83% reduction when compared to deficit as of June 30, 2009.
- $1.2 billion in annual savings to individual and corporation taxpayers for the next six fiscal years, commencing in taxable year 2011 to promote economic development and job creation.
- The Government estimates that the fiscal stabilization plan's operating expense reduction measures have resulted in annual savings of approximately $837 million, and that the tax revenue enforcement measures, and the temporary and permanent revenue raising measures have resulted in additional revenues of $933 million during fiscal year 2011.
- The Government estimates annual savings of approximately $62 million in salary expenditures as a result of the voluntary termination benefit program.
- Improvements in the investment grade credit rating in order to safeguard and strengthen fiscal operations, reduce financing costs, stimulate the economy and protect real estate valuation.
- In December 2011, the Economic Activity Index (EAI) increased by .5%, entering on a positive side for the first time since March 2006.
- Bankruptcies dropped to 9% in 2011, compared with the fiscal year 2010, the first drop since March 2006.
- Home sales totaled approximately 15,600, a 30.4% improvement over the previous year.

- Cement sales, a significant indicator of construction activity, have plummeted throughout the economic depression, dropping 13.5% in 2008, 29.6% in 2009 and 20% in 2010, before turning the corner in fiscal year 2011 to increase by 5.2%.
- Retail sales increased 2.8% in 2011.
- Exports fell by 4.9% in 2009, but then increased 1.4% in 2010 and 5.2% in 2011, when, at $64.8 billion, they registered the highest level in Puerto Rico history.
- Car sales fell by 11.6% and 15.6% in 2008 and 2009, respectively, and then, increased by 17.3% in 2010, and 1.5% in 2011.
- On the tourism sector, hotel occupancy dropped 1.8% in 2009, but then increased 1.2% in 2010 and 2.2% in 2011.
- New corporation registrations increased from .3% in fiscal year 2010, to 14% in fiscal year 2011.

Fiscal Stabilization Plan

The Fiscal Stabilization Plan had three main objectives: (i) stabilize the short-term fiscal situation; (ii) safeguard and strengthen the Commonwealth's investment-grade credit rating; and (iii) achieve budgetary balance. The Fiscal Stabilization Plan, which was generally contained in Act No. 7 of March 9, 2009, as amended ("Act 7"), included (i) a gradual operating expense-reduction plan through reduction of operating expenses, including payroll, which is the main component of the government expenditures, and the reorganization of the Executive Branch; (ii) a combination of temporary and permanent revenue raising measures, coupled with additional tax enforcement measures; and (iii) certain financial measures discussed below.

Expense Reduction Measures – A significant portion of Puerto Rico's budget deficit is attributable to the accumulated effect of high operating expenses in the government. The Fiscal Stabilization Plan sought to reduce the government's recurring expense base to make it consistent with the level of government revenues. The Fiscal Stabilization Plan established a government-wide operating expense-reduction program aimed at reducing operating expenses, including payroll.

Payroll expense is the most significant component of the government's recurring expense base. The reduction in payroll expenses contemplated by the Fiscal Stabilization Plan was implemented in three phases and included certain benefits conferred to participating employees.

Act 7 extended the term of collective bargaining agreements with public employees that had expired at the time of its enactment or that would expire while it is in effect, for a period of two years (until March 9, 2011) and provided that during this period such collective bargaining agreements could not be renegotiated or renewed. Act No. 73 of May 17, 2011 ("Act 73") extended the term of the noneconomic clauses of such collective bargaining agreements for an additional period of two years (until March 9, 2013) and provided that the economic clauses may be negotiated considering primarily the fiscal condition of the applicable agency and the Government and the safeguarding of services to the people. Act 73 further provides that for the negotiation of any economic clauses, OMB must evaluate the current and projected fiscal condition of the applicable agency of the Government and issue a certification as to the available resources, if any, for such negotiations.

The second element of the expense-reduction measures, which pertains to other operating expenses, was conducted through an austerity program in combination with other expense reduction measures. The austerity program mandated a 10% reduction in other operational expenses, including cellular phone use, credit cards, and official vehicles.

In July 2010, the Governor renewed an executive order issued in September 2009 requiring all agencies and public corporations to reduce modify or cancel service contracts to achieve a cost reduction of at least 15%. The executive order covers advertising, consulting, information technology, accounting, legal and other

services (except for direct services to the public), and grants the Fiscal Restructuring and Stabilization Board created under Act 7 (the "Fiscal Board") the power to monitor agencies and public corporations in order to ensure the required 15% minimum cost reduction. Each agency or public corporation had 30 days to report the following to the Fiscal Board: (i) all service contracts currently in effect, (ii) all canceled and/or modified contracts and the corresponding savings, (iii) justification for any remaining contracts in light of the mission of the agency or public corporation, and (iv) the reasonableness of the fees or compensation terms for each remaining contract.

In July 2010, the Governor also renewed another executive order issued in September 2009 requiring all agencies and public corporations to report the following to the Fiscal Board within 30 days: (i) all lease contracts currently in effect, (ii) the uses of leased premises, (iii) the needs for such premises, (iv) the terms and conditions of each lease, and (v) budgeted amounts for rent and other related expenses. During fiscal year 2010, the administration achieved savings by, among other things, consolidating operations of one or more agencies or public corporations and renegotiating leases to obtain more favorable terms.

Tax Revenue Enforcement Measures – The Fiscal Stabilization Plan also sought to increase tax revenues by implementing a more rigorous and ongoing tax enforcement and compliance strategy. Specific tax enforcement initiatives included: (i) enhancements to the administration of federal grants and fund receipts; (ii) stronger collections and auditing efforts on Puerto Rico's sales and use tax; and (iii) a voluntary tax compliance program.

Revenue Raising Measures – The goal of achieving fiscal and budgetary balance required a combination of measures that included the introduction of permanent and temporary tax increases. The Fiscal Plan included six temporary and four permanent revenue increasing measures. The temporary revenue increasing measures consisted of: (i) a 5% surtax on income of certain individuals, (ii) a 5% surtax on income of certain corporations, (iii) a 5% income tax on credit unions (commonly known as "cooperativas" in Puerto Rico), (iv) a 5% income tax on Puerto Rico international banking entities, (v) a special property tax on residential and commercial real estate, and (vi) a moratorium on certain tax credits. The temporary measures were initially set to be in effect for up to three fiscal years beginning in fiscal year 2010. Act 1 of 2011, however, limited the duration of the 5% surtax on income derived by certain individuals and corporations and the special property tax to two years. The permanent measures include (i) modifications to the alternative minimum tax for individuals and corporations, (ii) an increase in the excise tax on cigarettes, (iii) a new excise tax on motorcycles, and (iv) an increase in the excise tax on alcoholic beverages. The total revenues from these temporary and permanent measures for fiscal year 2010 were $428 million, and for 2011 were $450 million.

Financial Measures – The administration has also carried out several financial measures designed to achieve fiscal stability throughout the Fiscal Stabilization Plan implementation period. These measures included, among others, (i) a financing or bond issuance program, the proceeds of which were used to bridge the budgetary imbalance during the Fiscal Stabilization Plan implementation period and fund some of the Economic Reconstruction Plan initiatives, (ii) the restructuring of the securities held in the Corpus Account of the Infrastructure Development Fund and (iii) the restructuring of a portion of the Commonwealth's debt service.

These financial measures were anchored on the bond-issuance program of COFINA. Act 7, in conjunction with Act No. 91 of May 13, 2006, as amended ("Act 91 of 2006"), and Act No. 1 of January 14, 2009 ("Act 1 of 2009"), allocated to COFINA, commencing on July 1, 2009, 2.75% (one-half of the tax rate of 5.5%) of the sales and use tax imposed by the central government, thus increasing COFINA's financing capacity and allowing the Commonwealth to achieve fiscal stability throughout the implementation period of the Fiscal Stabilization Plan.

During fiscal years 2009 and 2010, COFINA issued approximately $5.6 billion and $3.6 billion, respectively, of revenue bonds payable from sales and use tax collections transferred to COFINA. The proceeds from these bond issues were used for, among other uses, paying approximately $1.9 billion of the Commonwealth's obligations that did not have a designated source of repayment, paying or financing approximately $4.8 billion of operational expenses constituting a portion of the Commonwealth's deficit, and funding the Local Stimulus Fund and the Stabilization Fund for fiscal year 2011 with approximately $500 million and $1 billion, respectively.

Act No. 3, which was approved by the Legislative Assembly of the Commonwealth on January 14, 2009 ("Act 3"), authorized the sale of the securities held in the Corpus Account. Puerto Rico Infrastructure Financing Authority ("PRIFA") sold the securities in January 2009 and used the proceeds to, among other things, make a deposit to the General Fund of approximately $319 million, which was applied to cover a portion of the Commonwealth's budget deficit and make a transfer to GDB of approximately $159 million as a capital contribution. The gross proceeds resulting from the sale were approximately $884 million.

Another financial measure taken has been the restructuring of a portion of the Commonwealth's debt service on the Commonwealth's general obligation bonds and bonds of Public Buildings Authority ("PBA") that are guaranteed by the Commonwealth and are payable from Commonwealth budget appropriations. During fiscal year 2010, the Commonwealth refinanced $512.9 million of interest accrued during such fiscal year on the Commonwealth's general obligation bonds and $164.5 million of interest accrued during such fiscal year on PBA bonds. During fiscal year 2011, the Commonwealth refinanced $490.9 million of interest accrued during such fiscal year and principal due on July 1, 2011 on the Commonwealth's general obligation bonds. During fiscal year 2011, PBA also used a line of credit from GDB to make payments of approximately $147.8 million of interest accrued during such fiscal year on its Commonwealth guaranteed bonds, which line of credit was refinanced with the proceeds of a series of Commonwealth guaranteed bonds issued by PBA.

The Fiscal Stabilization Plan has provided more fiscal stability, thereby safeguarding and strengthening Puerto Rico's credit. The fiscal structure resulting from the full implementation of the plan will be sustainable and conducive to economic growth and development.

Economic Reconstruction Plan

To balance the impact of the Fiscal Stabilization Plan, the administration developed and is implementing an economic reconstruction program designed to stimulate growth in the short term and lay the foundation for long-term economic development. The Economic Reconstruction Plan consists of two main components: (i) two economic stimulus programs, and (ii) a supplemental stimulus plan.

Economic Stimulus Programs – The cornerstone of Puerto Rico's short-term economic reconstruction plan was the implementation of two economic stimulus programs aimed at reigniting growth and counterbalancing any adverse effects associated with the Fiscal Stabilization Plan. The economic stimulus programs consisted of Puerto Rico's participation in ARRA (also referred to herein as the "Federal Stimulus") and a local plan (the "Local Stimulus") designed to complement the Federal Stimulus.

- ***Federal Stimulus Program*** – Puerto Rico was awarded with $6.8 billion in stimulus funds from ARRA. The funds are distributed in four main categories: relief to individuals, budgetary and fiscal relief, taxpayers' relief, and capital improvements. In terms of government programs, the Federal Stimulus allocates funds to education, agriculture and food assistance, health, housing and urban development, labor, and transportation, among others. As of October 14, 2011, PRIFA, which is responsible for the administration of ARRA in Puerto Rico, reported that approximately $5.5 billion in ARRA funds had been disbursed, representing approximately 79% of awarded funds.

- ***Local Stimulus Program*** – The administration formulated the Local Stimulus to supplement the Federal Stimulus and address specific local challenges associated with the local mortgage market, the availability of credit, and the infrastructure and construction sectors. Despite the fact that the Local Stimulus amounted to a $500 million investment by the government, it is estimated that its effect would be greater due to certain lending programs, which are being coordinated in collaboration with commercial banks in Puerto Rico. The administration has been disbursing funds under the $500 million local stimulus program. Most municipalities have received disbursements earmarked to pay outstanding debts and fund local projects. The administration has also disbursed funds allocated towards job training programs, a strategic water distribution project in a southern municipality and the revamping of the Puerto Rico permits system. It is estimated that approximately $400 million of Local Stimulus funds will be used for infrastructure projects. As of September 30, 2011, approximately $360 million of Local Stimulus funds had been disbursed.

Supplemental Stimulus Plan – The Supplemental Stimulus Plan was designed to provide investment in strategic areas with the objective of laying the foundations for long-term growth in Puerto Rico. The coordinated implementation of the Supplemental Stimulus Plan is expected to reinforce continuity in reigniting economic growth while making key investments for long-term development. The Supplemental Stimulus Plan is being conducted through a combination of direct investments and guaranteed lending. Specifically, the Supplemental Stimulus Plan targets critical areas such as key infrastructure projects, public capital improvement programs, private-sector lending to specific industries, and the export and research-and-development knowledge industries. The Supplemental Stimulus Plan takes into account the strategic needs that Puerto Rico must fulfill in order to become a more competitive player in its region and in the global economy.

On September 1, 2010, the Governor signed Act No. 132, also known as the Real Estate Market Stimulus Act of 2010 ("Act 132"), which provides certain incentives to help reduce the existing housing inventory. The incentives provided by Act 132 were effective from September 1, 2010 through June 30, 2011, and were subsequently extended until October 31, 2011 by Act No. 115 of July 5, 2011. On November 1, 2011, the Government approved Act No. 216 ("Act 216"), which provides incentives similar to the ones available under Act 132 and establishes an orderly transition to gradually reduce those incentives without disrupting the functioning of the housing market in Puerto Rico. The incentives provided by Act 216 are limited to residential real property and are effective from November 1, 2011 to December 31, 2012.

Economic Development Program

The Department of Economic Development and Commerce of the Commonwealth, in coordination with other government agencies, is in the process of implementing the *Strategic Model for a New Economy*, which consists of a comprehensive, long-term, economic development program aimed at improving Puerto Rico's overall global relevance, competitiveness, and business environment, and increasing private-sector capital formation and participation in the economy. These initiatives are centered on the dual mission of fostering multi-sector growth while reducing costs and barriers to business and investment, and are a medium-to-long-term counterpart to the Economic Plan and the Supplemental Stimulus Plan described above.

The current administration is emphasizing the following initiatives to enhance Puerto Rico's competitive position: (i) overhauling the permitting process, (ii) reducing energy costs, (iii) reforming the tax system, (iv) promoting the development of various projects through public-private partnerships, (v) implementing strategic initiatives targeted at specific economic sectors, and (vi) promoting the development of certain strategic/regional projects.

- ***Permitting Process*** – The first initiative, the reengineering of Puerto Rico's permitting and licensing process, has already been achieved. On December 1, 2009, the Governor signed into law Act No. 161,

known as the Law for the Restructuring & Unification of the Permit Evaluation & Authorization Process, which overhauls the existing permitting and licensing process in Puerto Rico in order to provide for a leaner and more efficient process that fosters economic development. In the short term, this restructuring is focused on eliminating the significant backlog of unprocessed permits that are currently in the pipeline of various government agencies. In the long term, this law seeks to significantly reduce the number of inter-agency processes and transactions currently required by creating a centralized, client-focused system that simplifies and shortens the permitting process for applicants. The Integrated Permits System (SIP by its Spanish acronym), as the new Puerto Rico permits process is called, became operational on December 1, 2010. Through September, 2011, 38,500 permits requests have been filed and 88% of these have already been resolved

- ***Energy Policy*** – On July 19, 2010, the Governor signed Acts No. 82 ("Act 82") and 83 ("Act 83"), providing for, among other things, the adoption of a new energy policy, which is critical for Puerto Rico's competitiveness. Presently, fluctuations in oil prices have a significant effect on Puerto Rico's overall economic performance. Act 82, known as the "Public Policy on Energy Diversification through Renewable and Alternative Sources", focuses on reducing Puerto Rico's dependence on fossil fuels, particularly oil, through the promotion of diverse, renewable-energy technologies. This new energy policy seeks to lower energy costs, reduce energy-price volatility, and establish environmentally sustainable energy production through a reduction in ecologically harmful emissions. Act 82 creates a Renewable Portfolio Standard, recognizing many sources of renewable energy utilizing various technologies, setting a hard target of 12% renewable energy production by 2015 and 15% by 2020, and a requirement for retail energy providers to establish a plan to reach 20% renewable energy production by 2035. Moreover, Act 83, also known as the "Green Energy Incentives Act", assembles under one law the incentives for the construction and use of renewable energy sources. Act 83 offers new benefits to stimulate the development of green energy projects, creates Renewable Energy Certificates (RECs) and creates the Green Energy Fund (the "GEF").

- ***Tax Reform*** – The tax reform consists of two phases focused on providing tax relief to individual and corporations, promoting economic development and job creation, simplifying the tax system and reducing tax evasion through enhanced tax compliance measures.

  The first phase, enacted as Act No. 171 of November 15, 2010, applies to the 2010 tax return and provides a tax credit to each individual and corporate taxpayer. The tax credit applicable to individuals and determined by reference to the tax liability ranges from 7% for those taxpayers in higher brackets to 15% for taxpayers in the lowest bracket. Corporate taxpayers will also be entitled to a 7% tax credit determined by reference to the tax liability; provided, that such taxpayer paid the statutorily required Christmas bonus for 2010. Also, the corporate net operating loss carry forward is extended from 7 years to 10 years. This first phase was expected to provide individual and corporate taxpayers with aggregate savings of $309 million for taxable year 2010.

  The second phase, enacted as Act 1 of 2011, (i) promotes employment by doubling the earning income credit and increasing the maximum applicable income to qualify for such credit; (ii) provides a $400 tax credit to individuals over 65 years of age with an income below $15,000; (iii) significantly reduces individual income tax rates and limited the deductions; and (iv) significantly reduces corporate income tax rates. The second phase was projected to provide taxpayers aggregate annual savings of $1.2 billion for the next six fiscal years, commencing in taxable year 2011.

  The reduction in income tax revenues resulting from the implementation of the tax reform is expected to be offset by the additional revenues produced by (i) an expanded income tax source rule and a new excise tax imposed on entities that purchase products manufactured in Puerto Rico by their affiliates under the provisions of Act 154, discussed below, (ii) enhanced enforcement efforts, including the

statutorily required reporting of certain client information by financial institutions to the Treasury Department, and (iii) increased economic activity produced by the tax relief measures. The combined effect of the tax reform measures and the revenue and enforcement measures is expected to be revenue positive.

Act 1 of 2011 conditions the implementation of the tax reductions applicable to individuals and corporations after fiscal year 2014 on the Commonwealth's ability to continue its path towards fiscal stability. Specifically, the tax relief provisions for individuals and corporations for taxable years 2014 through 2016 will only be implemented if (i) OMB certifies that the expense control target has been met, (ii) the Treasury Department certifies that General Fund revenue target has been met and (iii) the Planning Board certifies a year-over-year target increase in gross domestic product.

Act 154 – Expanded Income Taxation and New Excise Tax. Act 154, approved on October 25, 2010, as amended, seeks, among other things, to balance the tax burden among the taxpayers and increase the tax revenues of the Government. Act 154 modified the income taxation of certain nonresident alien individuals, foreign corporations and foreign partnerships (each a taxpayer) by expanding the circumstances in which such persons would be subject to Puerto Rico income taxation, and the act imposed an excise tax on the acquisition of certain personal property manufactured or produced in whole or in part in Puerto Rico and on the acquisition of certain manufacturing services carried out in Puerto Rico. Act 154 applies to income realized and acquisitions occurring after December 31, 2010.

The Act provides that, in certain circumstances, taxpayers will be deemed to be engaged in trade or business in Puerto Rico and taxable in Puerto Rico with respect to a portion of taxpayer's income where the taxpayers engage in significant transactions with other persons that are members of the same controlled group. Where a person engages in significant transactions with a member of the same controlled group that has gross receipts of seventy-five million dollars or more in any of the last three years and that manufactures or produces goods in Puerto Rico, or provides services in connection with the manufacture or production of goods in Puerto Rico, the person will not be subject to income tax, will instead be subject to the excise tax in lieu of any income tax. The excise tax will apply for a period of six years. The excise tax is based on the value of the personal property or services acquired and will be 4% for calendar year 2011, declining to 3.75% in 2012, 2.75% in 2013, 2.5% in 2014, 2.25% in 2015 and 1% in 2016. On December 29, 2010, the Treasury Department adopted regulations that provide certain tax credits against the temporary excise tax that lessen its impact on affected taxpayers subject to the temporary excise tax. These regulations became effective on January 1, 2011. The regulations address implementation and interpretation issues and include provisions regarding certain applicable credits against the tax subject to maintaining a baseline employment and other conditions. The Government estimates that this excise tax will affect foreign corporations or partnerships that are principally engaged in the manufacturing of pharmaceuticals and electronics. The Government raised approximately $1.6 billion from the excise tax during the first year of implementation of Act 154 and $5.6 billion for the six year period that the excise tax is in place.

In connection with the expansion of the taxation of foreign persons by Act 154, the Government obtained a legal opinion regarding the creditability of the excise tax for U.S. federal income tax purposes. The opinion concludes that this excise tax should be creditable against U.S. federal income tax. That conclusion was based in part upon a determination that the expansion of the taxation of foreign persons and the imposition of the excise tax more likely than not satisfy the constitutional requirements of due process and the Commerce Clause of the United States Constitution, for reasons discussed therein.

On March 30, 2011, the United States Internal Revenue Service (the "IRS") issued Notice 2011-29 addressing the creditability of the new excise tax imposed by Act 154. Notice 2011-29 provides that

the provisions of the new Puerto Rico excise tax are novel and the determination of its creditability requires the resolution of a number of legal and factual issues. Pending the resolution of those issues, the IRS will not challenge a taxpayer's position that the excise tax is a tax in lieu of an income tax under Section 903. The IRS also provided that any change in the foregoing tax credit treatment of the excise tax after resolution of the pending issues will be prospective and will apply to excise tax paid or accrued after the date that further guidance is issued.

- ***Public-Private Partnerships*** – The Government believes that the Public-Private Partnerships (the "PPPs") represent an important tool for economic development, particularly in times of fiscal difficulties. PPPs are long-term contracts between government and nongovernmental entities such as private companies, credit unions, and municipal corporations to develop, operate, manage or maximize infrastructure projects and/or government services. PPP contracts are centered on the concept of risk transfer. The nongovernmental partner takes on certain responsibilities and risks related to the development and/or operation of the project in exchange for certain benefits. PPPs can play a pivotal role in restoring investment in infrastructure and bringing about economic growth.

  PPPs provide the opportunity for the government to lower project development costs, accelerate project development, reduce financial risk, create additional revenue sources, establish service quality metrics, re-direct government resources to focus on the implementation of public policy, create jobs and attract new investment. Puerto Rico has opportunities for the establishment of PPPs in the areas of toll roads, airports and maritime ports, public schools, water provision, correctional facilities, and energy, among others.

  On June 8, 2009, the Legislative Assembly approved Act No. 29 ("Act 29"), which established a clear public policy and legal framework for the establishment of PPPs in Puerto Rico to further the development and maintenance of infrastructure facilities, improve the services rendered by the Government and foster the creation of jobs. Act 29 created the Public-Private Partnerships Authority (the "PPP Authority"), the entity tasked with implementing the Commonwealth's public policy regarding PPPs. On December 19, 2009, the PPP Authority approved regulations establishing the administrative framework for the procurement, evaluation, selection, negotiation and award process for PPPs in Puerto Rico.

  During fiscal year 2010, the PPP Authority engaged various financial advisors to assist it in the evaluation and procurement of various projects in the energy, transportation, water and public school infrastructure sectors. During the fourth quarter of fiscal year 2010, the PPP Authority published desirability studies for four public-private partnership priority projects and commenced procurement for such projects.

  As part of the Government's PPPs initiative, the PPP Authority and the Puerto Rico Highways and Transportation Authority (collectively, the "Sponsors") recently completed the procurement for a concession of toll roads PR-22 and PR-5 (the "Toll Roads"). On June 10, 2011, the Sponsors selected Autopistas Metropolitanas de Puerto Rico, LLC ("Metropistas"), a consortium comprised of Goldman Sachs Infrastructure Partners and Abertis Infraestructuras, as the winning proponent based on a bid of $1.1 billion. On June 27, 2011, Metropistas and the Highways and Transportation Authority executed the concession agreement for the Toll Roads (the "Concession Agreement") and, on September 22, 2011, the parties successfully completed the financial closing. As a result of this transaction, the Puerto Rico Highways and Transportation Authority received a lump-sum payment of $1.1 billion and a commitment to invest $56 million in immediate improvements and comply with world-class operating standards.

- ***Sector Initiatives*** – The administration will complement the previously mentioned initiatives with specific strategic initiatives with the objective of creating jobs and increasing economic activity across various sectors of the Puerto Rico economy. The Commonwealth has natural or structural competitive advantages in several areas, such as pharmaceutical and biotechnology manufacturing. These advantages provide opportunities for the development of regional clusters in high-tech manufacturing, research and development, tourism, renewable energy, international trade and professional services. The specific initiatives will be designed to promote sustainable economic growth while accelerating to a knowledge-based and innovation driven economy, focused mainly in the development of human capital and intellectual property, thus diversifying Puerto Rico's economic base.

- ***Strategic/Regional Projects*** – The administration has also targeted strategic/regional projects that will generate investments in various regions of the Island in order to foster balanced economic development. One of the strategic projects for the northern region is called the Urban Bay (formerly known as the Golden Triangle), an urban redevelopment project that incorporates the areas of Old San Juan, Puerta de Tierra, Isla Grande, including the Puerto Rico Convention Center District (the "District"), and Condado, as well as other communities in the vicinity of historic San Juan Bay. The aim of the Urban Bay project is to develop San Juan Bay into a major tourism, recreation, commercial and residential sector which serves the local community and becomes a major attraction for leisure and business travelers, both local and external. Construction of the immediate improvements on the project footprint is already underway. Another projects, are:

    - Science City - also represents a critical effort to move Puerto Rico to the forefront of science, technology and research and development. It seeks to leverage the significant competitive advantages in the knowledge-based sectors that put Puerto Rico in an ideal position to undertake this type of development. Through the recently enacted Law No. 208 of October 20, 2011, the benefits of investing in and performing science and technology research and development activities in the newly denominated "Science District" were expanded through the inclusion of such activities as eligible for tax exemption under the Economic Incentives Act.
    - Redevelopment of the old Roosevelt Roads navy facility in Ceiba, which is a key element in the administration's strategy to create jobs and reignite the economy of Puerto Rico's eastern region, including Ceiba, Naguabo, Vieques, and Culebra. This tourist complex will include hotels, casinos, eco-tourist attractions, international airport, retail, yacht marina, and cruise ship ports.
    - Redevelopment of the Aguadilla airport to serve as the second international airport of Puerto Rico and as a regional logistics hub. The Government is in the process of submitting a formal application to obtain a Foreign Trade Zone designation for the Aguadilla airport.

Voluntary Termination Benefit Program

On July 2, 2010, the Commonwealth enacted Act No. 70 ("Act 70") to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Act 70 applies to agencies and component units whose budgets are funded in whole or in part by the Commonwealth's General Fund.

Act 70 established that early retirement benefits ("early retirement program") will be provided to eligible employees that have completed between 15 to 29 years of credited services in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50% of each employee' salary, as defined. In this early retirement program, the Commonwealth will make the employer contributions to the Retirement System and

pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited services in the Retirement System.

Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System ("incentivized resignation program") or who have at least 30 years of credited service in the Retirement System and the age for retirement or who have the age for retirement ("incentivized retirement program"). Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years.

Additionally, eligible employees that choose to participate in the early retirement program or in the incentivized resignation program are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Commonwealth.

Based on the number of employees who agreed to participate in this voluntary termination benefit program (approximately 3,000 employees at June 30, 2011), the Government estimates annual savings of approximately $62 million in salary expenditures, net of $27 million in annual pension payments.

In addition, Act 70 allows certain component units of the Commonwealth that operate with their own resources to implement a similar program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. The benefits and the requirements are the same provided by Act 70, except as follows: in the early retirement benefit program, the component unit will make the employee and the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System; and in the incentivized retirement program, the component unit will make the employee and the employer contributions to the Retirement System for a five year period. At June 30, 2011, approximately 600 employees of these component units agreed to participate in this voluntary termination benefit program. At the same time, Act 70 has a positive actuarial impact on the unfunded actuarial accrued liability of the Retirement System.

Unfunded Pension and Non-Pension Post-Employment Benefit Obligations and Funding Shortfalls of the Retirement Systems

One of the challenges every administration has faced during the past 20 years is how to address the growing unfunded pension benefit obligations and funding shortfalls of the three Government retirement systems (the Employees Retirement System, the Teachers Retirement System and the Judiciary Retirement System) that are funded principally with budget appropriations from the Commonwealth's General Fund. As of June 30, 2011, the date of the latest actuarial valuations of the retirement systems, the unfunded actuarial accrued liability (including basic and system administered benefits) for the Employees Retirement System, the Teachers Retirement System and the Judiciary Retirement System was $23.7 billion, $9.1 billion and $319 million, respectively, and the funded ratios were 6.8%, 20.8% and 16.7%, respectively.

Based on current employer and member contributions to the retirement systems, the unfunded actuarial accrued liability will continue to increase significantly, with a corresponding decrease in the funded ratio, since the annual contributions are not sufficient to fund pension benefits, and thus, are also insufficient to amortize the unfunded actuarial accrued liability. Because annual benefit payments and administrative expenses of the retirement systems have been significantly larger than annual employer and member contributions, the retirement systems have been forced to use investment income, borrowings and sale of investment portfolio assets to cover funding shortfalls.

Based on the assumptions used in the latest actuarial valuations, including the expected continued funding shortfalls: (i) the Employees Retirement System, the largest of the three retirement systems, would deplete its

net assets (total assets less liabilities, including the principal amount of certain pension obligation bonds) by fiscal year 2014; (ii) the Teachers Retirement System would deplete its net assets by fiscal year 2022; and (iii) the Judiciary Retirement System would deplete its net assets by fiscal year 2019. The estimated years for depletion of the assets could vary depending on how actual results differ from the assumptions used in the actuarial valuations, as well as based on any future changes to the contribution and benefits structures of the retirement systems. As a result of the increases in employer contributions to the Employees Retirement System and the Teachers Retirement System adopted in July 2011, as described below, the Administrator of the Retirement Systems projects that the period before depletion of the assets of these two systems will be extended by three to four years.

Since the Commonwealth and other participating employers are ultimately responsible for any funding deficiency in the three retirement systems, the depletion of the assets available to cover retirement benefits will require the Commonwealth and other participating employers to cover annual funding deficiencies. It is estimated that the Commonwealth would be responsible for approximately 74% of the combined annual funding deficiency of the three retirement systems, with the balance being the responsibility of the municipalities and participating public corporations.

The Commonwealth also provides non-pension post-employment benefits that consist of a medical insurance plan contribution. Annual benefit costs, which amounted to approximately $170.2 million for fiscal year 2010 and $165.9 million for fiscal year 2011, are funded on a pay-as-you-go basis from the General Fund and are valued using actuarial principles similar to the way that pension benefits are calculated. Commonwealth's contributions made for these benefits amounted to approximately $114.2 million for fiscal year 2010 and $125.4 million for fiscal year 2011. Based on the latest actuarial valuations, as of June 30, 2011, the aggregate unfunded actuarial accrued liability of these benefits for the three retirement systems was $2.5 billion.

Because of its multi-year fiscal imbalances previously mentioned, the Commonwealth has been unable and is currently unable to make the actuarially recommended contributions to the retirement systems. If the Commonwealth fails to take action in the short-term to address the retirement systems' funding deficiency, the continued use of investment assets to pay benefits as a result of funding shortfalls and the resulting depletion of assets could adversely affect the ability of the retirement systems to meet the rates of return assumed in the actuarial valuations, which could in turn result in an earlier depletion of the retirement systems' assets and a significant increase in the unfunded actuarial accrued liability. Ultimately, since the Commonwealth's General Fund is required to cover a significant amount of the funding deficiency, the Commonwealth would have difficulty funding the annual required contributions unless it implements significant reforms to the retirement systems, obtains additional revenues, or takes other budgetary measures.

In order to address the growing unfunded pension and non-pension benefit obligations and funding shortfalls of the three Government retirement systems, in February 2010, the Governor established a special commission to make recommendations for improving the financial solvency of the retirement systems. The special commission submitted a report to the Governor on October 21, 2010.

As a result of the special commission's report and the Government's analysis, the Governor submitted two bills to the Legislative Assembly to address in part the retirement systems' financial condition. One of such bills was enacted as Act No. 96 of June 16, 2011 ("Act 96"). On June 23, 2011, in accordance with Act 96, $162.5 million of funds on deposit in the Corpus Account of the Puerto Rico Infrastructure Development Fund (the "Corpus Account"), which is under the custody and control of the Puerto Rico Infrastructure Financing Authority ("PRIFA"), were contributed to the Employees Retirement System and invested in capital appreciation bonds issued by COFINA maturing annually on August 1, 2043 through 2048 and accreting interest at a rate of 7%. The principal amount of the COFINA bonds will grow to an aggregate amount of approximately $1.65 billion at their maturity dates.

The second bill submitted by the Governor was enacted as Act No. 114 of July 5, 2011 ("Act 114") and Act No. 116 of July 6, 2011 ("Act 116"). These Acts provide an increase in employer contributions to the Employee Retirement System and the Teachers Retirement System of 1% of covered payroll in each of the next five fiscal years and by 1.25% of covered payroll in each of the following five fiscal years. As a result of these increases, the Employee Retirement System and the Teachers Retirement System would receive approximately $36 million and $14 million, respectively, in additional employer contributions during fiscal year 2012, and the additional employer contributions are projected to increase gradually each fiscal year (by an average aggregate increase of $71 million per fiscal year) to approximately $494 million and $195 million, respectively, by fiscal year 2021. The additional employer contributions for fiscal year 2012 have been included in the approved budget for such fiscal year. With respect to the increases in the employer contributions corresponding to the municipalities, Act 116 provides that the increases for fiscal years 2012, 2013 and 2014 will be paid for by the Commonwealth from the General Fund budget, representing approximately $6.3 million, $12.8 million and $19.7 million in fiscal years 2012, 2013 and 2014, respectively.

In addition to these measures, on August 8, 2011, the Board of Trustees of the Employees Retirement System adopted a new regulation regarding the rules relating to the concession of personal loans to its members, which, among other changes, lowers the maximum amount of those loans from $15,000 to $5,000. These changes are expected to improve gradually the Employees Retirement System's liquidity.

GENERAL FUND FINANCIAL ANALYSIS

Since 2000, the Commonwealth has faced a number of fiscal challenges, including an imbalance (a deficit) between its General Fund total revenues and expenditures. The deficit reached its highest level in fiscal year 2009. Prior to fiscal year 2009, the Government bridged the deficit through the use of non-recurring measures, such as borrowing from GDB or in the bond market, postponing the payment of various government expenditures, such as payments to suppliers and utility providers, and other one-time measures such as the use of derivatives and borrowings collateralized with government owned real estate and uncollected General Fund revenues. In January 2009, the Government began to implement a multi-year plan designed to achieve fiscal balance, restore sustainable economic growth and safeguard the investment-grade ratings of the Commonwealth bonds. This plan included certain expense reduction measures that, together with various temporary and permanent revenue raising measures, have allowed the government to reduce the deficit. These measures are briefly discussed below under the heading "Fiscal Stabilization and Economic Reconstruction Plan".

For fiscal year 2011, the deficit was $1.1 billion, consisting of the difference between total recurring revenues of $8 billion and total expenditures for such fiscal year of $9.1 billion. For fiscal year 2010, the deficit was $2 billion, consisting of the difference between total recurring revenues of $7.6 billion and total expenditures for such fiscal year of $9.6 billion. The deficits for fiscal years 2011 and 2010 decreased by 47% and 38%, respectively, when compared to the deficit for prior year. During the last two fiscal years, the Government has been able to reduce the deficit by both increasing its revenues and reducing its expenditures. The Government's ability to continue reducing the deficit will depend in part on its ability to continue increasing revenues and reducing expenditures, which in turn depends on a number of factors, including improvements in general economic conditions.

Results for Fiscal Year 2011

Total General Fund recurring revenues, budgetary basis, (excluding other financing sources) for fiscal year 2011 were $8 billion, representing an increase of approximately $400 million from actual recurring revenues of $7.6 billion for fiscal year 2010 and an increase of approximately $61.3 million from estimated revenues for fiscal year 2011 of $7.9 billion.

The increase in General Fund total revenues is mainly due to an increase of $170.1 million in tax withholdings from non-residents and the collection of $677.8 million as a result of the new temporary excise tax and the expansion of the taxation of certain foreign persons adopted as Act No. 154 of October 25, 2010, as amended ("Act No. 154") as part of the tax reform (discussed below under "Tax Reform"). This increase was partially offset by a decrease of $407 million and $18.5 million in collections from income tax on individuals and entertainment machine licenses, respectively. The decrease in individual income taxes is due to the tax relief provided to individual taxpayers as part of the tax reform and to current economic conditions. The Government had expected that the decrease in General Fund net revenues as a result of the tax relief provided to taxpayers as part of the tax reform would be offset principally by the temporary excise tax imposed on certain foreign persons by Act No. 154. For the year 2011, the excise tax payments amounted to $1.6 billion, which was consistent with the Government's projection of collections from the excise tax. The Government's expectations with respect to the impact of the tax reform on fiscal year 2011 revenues were met.

Expenditures for fiscal year 2011 were approximately $9.1 billion, which represented an increase of approximately $127 million or 1.4% of original budgeted expenditures and exceeded total General Fund revenues (excluding other financing sources) by $1.1 billion, or 14%. The difference between total expenditures and total General Fund revenues (excluding other financing sources) is referred to herein as the "deficit" and was covered principally by proceeds from a COFINA bond issuance and proceeds from bonds issued to refinance debt service payments.

During fiscal years 2011 and 2010, the Commonwealth did not face an aggregate shortfall of cash due to the fiscal stabilization plan implemented by the current administration. During the fiscal year 2009, the Commonwealth faced an aggregate cash shortfall of $1.2 billion that, when added to the deficit of $3.3 billion, provided for approximately $4.5 billion in excess expenditures and cash shortfall. The difference between General Fund revenues and total expenditures for such fiscal year was principally paid from proceeds of bond issues made by COFINA and the restructuring of the corpus account of the Puerto Rico Infrastructure Financing Authority ("PRIFA") pursuant to the fiscal stabilization plan.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets (Deficit)

Net assets (deficit) may serve over time as a useful indicator of a government's financial position. Total assets and total liabilities of the Commonwealth's primary government at June 30, 2011 amounted to $15.1 billion and $48.8 billion, respectively, for a net deficit of $33.7 billion, compared to a $30.4 billion net deficit at the beginning of the current year.

A portion of the Commonwealth's net assets (deficit) reflects its investment in capital assets such as land, buildings, and equipment, less any related debt used to acquire those assets that are still outstanding. The Commonwealth uses these capital assets to provide services to its residents; consequentially, these assets are not available for future spending. Although the Commonwealth's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Commonwealth's net assets (deficit) represents resources that are subject to external restrictions on how they may be used. An otherwise positive remaining balance would be used to meet the Commonwealth's ongoing obligations to its residents and creditors. Internally imposed designations of resources are not presented as restricted net assets.

The net deficit of the primary government primarily results from the Commonwealth's practice of issuing debt and transferring such funds to the component units so that they can carry out the construction projects.

The primary government retains the debt while the component units report the corresponding asset financed by such debt.

Total primary government assets decreased by $1.1 billion during fiscal year 2011 when compared to the prior fiscal year. This decrease is mainly due to the decrease of $1.1 billion in restricted investments.

Total primary government liabilities increased by $2.1 billion during the current fiscal year when compared to the prior fiscal year.

COMMONWEALTH'S NET ASSETS (DEFICIT) – PRIMARY GOVERNMENT

JUNE 30, 2011
(Expressed in thousands)

	Governmental activities	Business-type activities	Total
Current assets	$ 3,264,534	$ 584,140	$ 3,848,674
Capital assets	7,766,690	1,660	7,768,350
Other assets	2,935,147	594,001	3,529,148
Total assets	13,966,371	1,179,801	15,146,172
Current liablities	4,611,611	183,693	4,795,304
Noncurrent liabilities	43,862,961	165,882	44,028,843
Total liabilities	48,474,572	349,575	48,824,147
Invested in capital assets, net of related debt	3,691,871	1,660	3,693,531
Restricted	1,495,558	840,241	2,335,799
Unrestricted	(39,695,630)	(11,675)	(39,707,305)
Total net assets (deficit)	$ (34,508,201)	$ 830,226	$ (33,677,975)

COMMONWEALTH'S NET ASSETS (DEFICIT) – PRIMARY GOVERNMENT
JUNE 30, 2010
(Expressed in thousands)

	Governmental activities	Business-type activities	Total
Current assets	$ 3,754,128	$ 625,687	$ 4,379,815
Capital assets	7,393,801	1,586	7,395,387
Other assets	3,944,000	538,760	4,482,760
Total assets	15,091,929	1,166,033	16,257,962
Current liablities	4,277,200	199,816	4,477,016
Noncurrent liabilities	42,038,268	169,307	42,207,575
Total liabilities	46,315,468	369,123	46,684,591
Invested in capital assets, net of related debt	3,866,328	1,586	3,867,914
Restricted	2,941,461	505,906	3,447,367
Unrestricted	(38,031,328)	289,418	(37,741,910)
Total net assets (deficit)	$ (31,223,539)	$ 796,910	$ (30,426,629)

Changes in Net Assets (Deficit)

The Commonwealth's net deficit increased by $3.2 billion or 10.5% from last year's total net deficit, as restated. Approximately 47.5% of the Commonwealth's total revenue came from taxes, while 40% resulted from grants and contributions (primarily federal financial assistance). Charges for services provided represented 10.4% of the total revenue. The Commonwealth's expenses cover a range of services. The largest expenses were for general government, education, public housing and welfare, health, and public safety, which presented a combined increase of .12% when compared with prior fiscal year. In 2011, governmental activities' expenses exceeded program revenue by $12.1 billion, resulting in the use of $8.9 billion of general revenue (mostly taxes and transfers). On the other hand, program revenue from business type activities in 2011 exceeded expenses by approximately $270 million.

Governmental activities increased the Commonwealth's net deficit by $3.2 billion.

Business type activities decreased the Commonwealth's net deficit by $57.8 million.

COMMONWEALTH OF PUERTO RICO
CHANGES IN NET ASSETS (DEFICIT) - PRIMARY GOVERNMENT
YEAR ENDED JUNE 30, 2011
(Expressed in thousands)

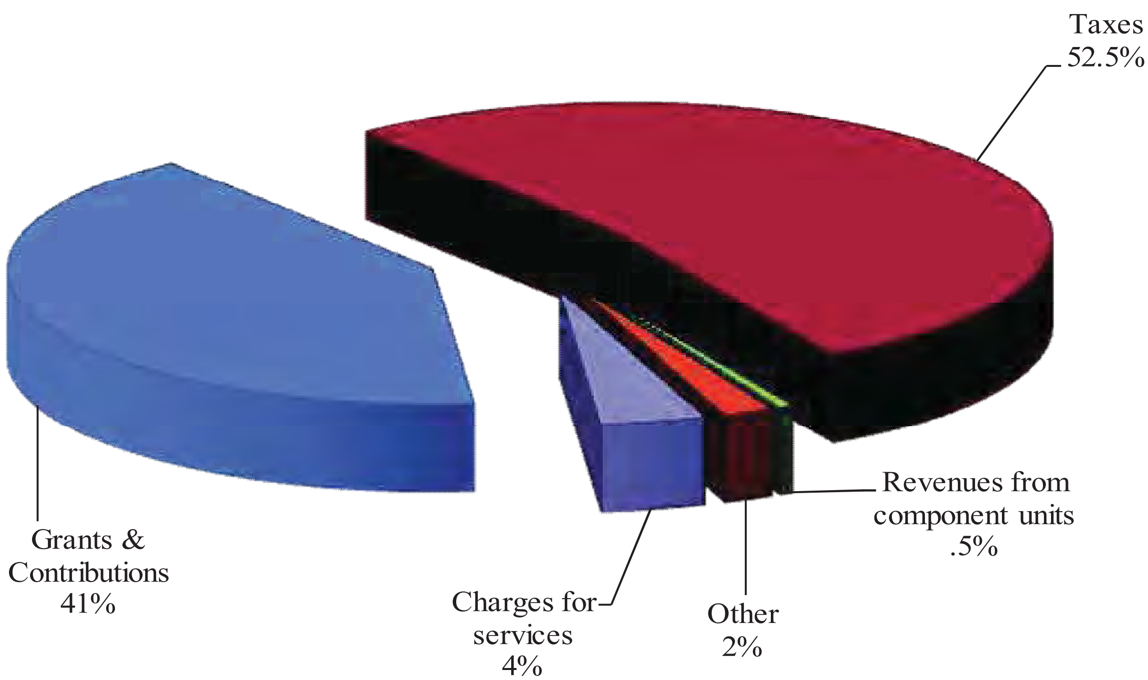
	Governmental activities	Business-type activities	Total
Revenues:			
Program revenues:			
Charges for services	$ 632,005	$ 1,192,724	$ 1,824,729
Operating grants and contributions	6,006,310	450,689	6,456,999
Capital grants and contributions	457,725	-	457,725
	7,096,040	1,643,413	8,739,453
General revenues:			
Income taxes	4,726,036	-	4,726,036
Sales and use tax	1,129,006	-	1,129,006
Excise taxes	2,106,784	-	2,106,784
Other taxes	317,292	-	317,292
Revenues from component units	84,610	-	84,610
Other	305,425	17,900	323,325
	8,669,153	17,900	8,687,053
Total revenues	15,765,193	1,661,313	17,426,506
Expenses:			
General government	2,880,614	-	2,880,614
Public safety	2,205,782	-	2,205,782
Health	3,022,000	-	3,022,000
Public housing and welfare	3,937,901	-	3,937,901
Education	4,469,337	-	4,469,337
Economic develoment	517,921	-	517,921
Payment of obligations of component units	6,411	-	6,411
Intergovernmental	430,941	-	430,941
Interest and other	1,807,230	40,044	1,847,274
Lotteries	-	697,746	697,746
Unemployment	-	635,145	635,145
Total expenses	19,278,137	1,372,935	20,651,072
Increase (decrease) in net assets before transfers	(3,512,944)	288,378	(3,224,566)
Transfers	230,551	(230,551)	-
Change in net assets (deficit)	(3,282,393)	57,827	(3,224,566)
Net assets (deficit), beginning of year (as restated)	(31,225,808)	772,399	(30,453,409)
Net assets (deficit), end of year	$ (34,508,201)	$ 830,226	$ (33,677,975)

COMMONWEALTH OF PUERTO RICO
CHANGES IN NET ASSETS (DEFICIT) - PRIMARY GOVERNMENT
YEAR ENDED JUNE 30, 2010
(Expressed in thousands)

	Governmental activities	Business-type activities	Total
Revenues:			
Program revenues:			
Charges for services	$ 600,473	$ 1,218,613	$ 1,819,086
Operating grants and contributions	6,536,125	544,393	7,080,518
Capital grants and contributions	129,947	-	129,947
	7,266,545	1,763,006	9,029,551
General revenues:			
Income taxes	4,857,035	-	4,857,035
Sales and use tax	1,087,053	-	1,087,053
Excise taxes	1,145,538	-	1,145,538
Other taxes	326,343	-	326,343
Revenues from component units	76,758	-	76,758
Other	314,158	21,260	335,418
	7,806,885	21,260	7,828,145
Total revenues	15,073,430	1,784,266	16,857,696
Expenses:			
General government	3,156,646	-	3,156,646
Public safety	2,228,000	-	2,228,000
Health	2,843,744	-	2,843,744
Public housing and welfare	3,726,041	-	3,726,041
Education	4,543,362	-	4,543,362
Economic develoment	292,037	-	292,037
Payment of obligations of component units	196,898	-	196,898
Intergovernmental	533,939	-	533,939
Interest and other	1,648,875	20,180	1,669,055
Lotteries	-	720,992	720,992
Unemployment	-	820,261	820,261
Total expenses	19,169,542	1,561,433	20,730,975
Increase (decrease) in net assets before transfers	(4,096,112)	222,833	(3,873,279)
Transfers	265,852	(265,852)	-
Change in net assets (deficit)	(3,830,260)	(43,019)	(3,873,279)
Net assets (deficit), beginning of year (as restated)	(27,393,279)	839,929	(26,553,350)
Net assets (deficit), end of year	$ (31,223,539)	$ 796,910	$ (30,426,629)

Revenues – Governmental Activities

Year ended June 30, 2011



Governmental Activities

Governmental activities increased the Commonwealth's net deficit by $3.2 billion. A comparison of the cost of services by function for the Commonwealth's governmental activities is shown below, along with the revenue used to cover the net expenses of the governmental activities.

**COMMONWEALTH'S GOVERNMENTAL ACTIVITIES -
EXPENSES NET OF PROGRAM REVENUE
Year ended June 30, 2011
(Expressed in thousands)**

Net expense:	
General government	$ (2,225,971)
Public safety	(2,102,364)
Health	(1,909,481)
Public housing and welfare	(172,015)
Education	(3,169,237)
Economic development	(358,447)
Payment of obligations of component units	(6,411)
Intergovernmental	(430,941)
Interest and other	(1,807,230)
Total governmental activities expenses, net of program revenue	(12,182,097)
General revenues:	
Taxes	8,279,118
Revenues from component units	84,610
Transfers from business-type activities	230,551
Other revenue	305,425
Total governmental activities general revenue	8,899,704
Increase in governmental activities net deficit	$ (3,282,393)

Business Type Activities

The business type activities decreased the Commonwealth's net deficit by $57.8 million.

Financial Analysis of the Commonwealth's Individual Funds

As noted earlier, the Commonwealth uses fund accounting to help ensure and demonstrate compliance with finance related legal requirements.

GOVERNMENTAL FUNDS

The focus of the Commonwealth's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Commonwealth's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of fiscal year 2011, the Commonwealth's governmental funds reported combined ending fund balance of $1.6 billion. The expenditures exceeded the revenues by $3.8 billion. However, this was offset by other financing sources amounting to $2.8 billion in the governmental funds. This year, the excess of expenditures over revenue

decreased by $562 million compared with the prior year. Other financing sources decreased by $2.3 billion compared to prior year.

The general fund is the chief operating fund of the Commonwealth. At the end of the current fiscal year, the total general fund balance had a total deficit of $251 million. The fund's deficit of the Commonwealth's general fund decreased by $296.2 million as a result of the current fiscal year's change in financial position. This is a 54% decrease when compared to total general fund deficit reported in fiscal year 2010.

The debt service fund is the fund in which the Commonwealth accumulates the resources for the payment of the long-term debt. At end of the fiscal year, the fund balance of the debt service fund decreased by $55 million when compared to prior fiscal year. Bonds and interest payable decreased by $45.1 million compared with the prior year.

PROPRIETARY FUNDS

The Commonwealth's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. As discussed in the business type activities above, the Commonwealth's net deficit decreased by $57.8 million as a result of operations in the proprietary funds. This resulted from an increase in net assets of $5 million by the unemployment insurance fund, decrease in net deficit of $13.8 million in the lotteries fund and an increase of net assets of $39 million by the Commonwealth's other proprietary funds.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Commonwealth's investment in capital assets for its governmental and business type activities as of June 30, 2011 amounts to $11.3 billion, less accumulated depreciation and amortization of $3.5 billion, leaving a book value of $7.8 billion. This investment in capital assets includes land, construction in progress, buildings, building improvements and equipment as infrastructure.

The net book value of capital assets at June 30, 2011 is distributed by function/activity in the following proportions: general government, 41%; public safety, 5%; health, 1%; public housing and welfare, 33%; education, 6%; and economic development, 14%. Capital outlays were approximately $452 million for the fiscal year. Depreciation and amortization charges for the fiscal year totaled $265 million.

The infrastructure assets representing items that are normally immovable and of value only to the Commonwealth as roads, highways, bridges, toll facilities, water and sewer systems, lighting production, transmission and distribution systems, and similar items are principally owned by the component units of the Commonwealth. Therefore, the infrastructure assets are reported within depreciable capital assets under the discretely presented component units' column. Additional information on the Commonwealth's capital assets can be found in Note 13 to the basic financial statements that accompany this report.

COMMONWEALTH'S CAPITAL ASSETS - PRIMARY GOVERNMENT
JUNE 30, 2011
(Expressed in thousands)

	Governmental activities	Business-type activities
Land	$ 867,215	$ -
Construction in progress	1,117,079	-
Buildings and building improvements, net	5,118,329	-
Equipment, furniture, fixtures, vehicles and software, net	189,562	1,660
Infrastructure, net	474,505	-
Total capital assets	$ 7,766,690	$ 1,660

Debt Administration

General obligation bonds are backed by the full faith and credit of the Commonwealth, including the Commonwealth's power to levy additional taxes to help ensure repayment of the debt.

The Constitution of the Commonwealth provides that direct obligations of the Commonwealth evidenced by bonds or notes and backed by the full faith, credit, and taxing power of the Commonwealth are not to be issued if the amount of the principal of, and interest on, such bonds and notes and on all such bonds and notes issued thereafter, which are payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year on account of bonds or notes guaranteed by the Commonwealth, exceed 15% of the average annual revenue raised under the provisions of Commonwealth legislation and conveyed into the treasury (internal revenues) in the two fiscal years preceding the current fiscal year. Section 2, Article VI of the Constitution of the Commonwealth does not limit the amount of debt that the Commonwealth may guarantee as long as the 15% limitation is not exceeded through payments by the Commonwealth on such guaranteed debt. At June 30, 2011, the Commonwealth is in compliance with the debt limitation requirement.

The Commonwealth's policy has been and continues to be to prudently manage such debt within the constitutional limitation. Debt of municipalities, other than bond anticipation notes, is supported by real and personal property taxes and municipal license taxes. Debt of public corporations, other than bond anticipation notes, is generally supported by the revenues of such corporations from rates charged for services or products. However, certain debt of public corporations is supported, in whole or in part, directly or indirectly, by Commonwealth appropriations or taxes.

Internal revenues consist principally of income taxes, property taxes, sales and use taxes and excise taxes. Certain revenues, such as federal excise taxes on offshore shipments of alcoholic beverages and tobacco products and customs duties, which are collected by the United States Government and returned to the Treasury Department of Puerto Rico and motor vehicle fuel taxes and license fees, which are allocated to the Highways and Transportation Authority, are not included as internal revenues for the purpose of calculating the debt limit, although they may be available for the payment of debt service. In addition, the portion of the sales and use tax allocated to COFINA is not included as internal revenues since the legislation that created COFINA transferred ownership of such portion of the sales and use tax to COFINA and provided that such portion was not available resources under the Constitutional provisions relating to full faith and credit bonds.

The Commonwealth's general obligation and appropriation debt is currently rated "Baa1" by Moody's Investors Service ("Moody's"), "BBB" by Standard & Poor's Ratings Services ("S&P"), and "BBB+" by Fitch, Inc. ("Fitch").

OTHER MATTERS

Insurance matters – Government owned property is insured through policies obtained by the Secretary of the Treasury and through self-insured, except for property owned by the Puerto Rico Electric Power Authority and the Puerto Rico Aqueduct and Sewer Authority, whose properties are insured through arrangements and policies obtained by the respective authorities. Personal injury against the Commonwealth is limited by law to $150,000 per occurrence.

Differences between budget and basic financial statements- Revenues and expenditures, as reported by the Treasury Department in its basic financial statements, may differ substantially from resources and appropriations in its annual budget for a number of reasons, including the following:

- The budgetary accounts are on a budgetary basis, while financial statements prepared by the Treasury Department include adjustments as required by government accounting standards.

- Expenditures for current purposes in a particular year may include amounts appropriated for earlier periods but not previously expended or amounts not budgeted for a particular fiscal year, but expended during that year, and, conversely, may exclude amounts appropriated for such fiscal year but not expended until later periods.

- Bonds are authorized by the Commonwealth in accordance with a four year capital improvement program. Since bond sale are determined by bond market conditions and other factors, the amounts for bonds sold for these improvements are financed by advances from the General Fund to the Capital Projects Fund, which are later reimbursed from proceeds of a bond or notes sales.

Derivative Instruments – The Commonwealth accounts for derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Derivative instruments such as interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swap options, forward contracts, and futures contracts are entered into by governments as investments; as hedges of identified financial risks associated with assets or liabilities, or expected transactions (i.e., hedgeable items); to lower the costs of borrowings; to effectively fix cash flows or synthetically fix prices; or to offset the changes in fair value of hedgeable items. Certain derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, are reported at fair value by governments in their government-wide financial statements. The changes in fair value of hedging derivative instruments do not affect investment revenue but are reported as deferrals. Alternatively, the changes in fair value of investment derivative instruments (which include ineffective hedging derivative instruments) are reported as part of investment revenue in the current reporting period. Effectiveness is determined by considering whether the changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item. As of June 30, 2011, the outstanding notional amount of the Commonwealth's various swap agreements was $3.8 billion.

GLOBAL ECONOMIC FACTORS AFFECTING THE COMMONWEALTH

The Commonwealth's economy is recovering from a recession that began in the fourth quarter of fiscal year 2006. Although Puerto Rico's economy is closely linked to the United States economy, in recent fiscal years the performance of the Puerto Rico economy has not been consistent with the performance of the United States economy. For fiscal years 2007, 2008, 2009 and 2010 Puerto Rico's real gross national product decreased by 1.2%, 2.9%, 4.0% and 3.8%, respectively, while the United States real gross domestic product grew at a rate of 1.8% and 2.7% during fiscal years 2007 and 2008, respectively, contracted during fiscal year 2009 at a rate of 3%, and grew by 0.9% in fiscal year 2010. According to the Puerto Rico Planning Board's (the "Planning Board") latest projections made in March 2011, which take into account the preliminary results

for fiscal year 2010, the economic impact of the disbursement of funds from the American Recovery and Reinvestment Act of 2009 ("ARRA"), and other economic factors, it is projected that the real gross national product for fiscal year 2011 contracted by 1%. The real gross national product for fiscal year 2012, however, is forecasted to grow by 0.7%.

The Planning Board's revised forecast for fiscal year 2011 took into account the estimated effects on the Puerto Rico economy of the Government's fiscal stabilization plan, the impact of the initial phase of the tax reform, the disbursement of funds from ARRA, the continuation of the fiscal stabilization plan, and the activity expected to be generated from the Government's local stimulus package. The revised forecast also considered the effect on the Puerto Rico economy of general and global economic conditions, the U.S. economy, the volatility of oil prices, interest rates and the behavior of local exports, including expenditures by visitors. The Planning Board's forecast for fiscal year 2012 projects an increase in gross national product of 0.7% in constant dollars. The Planning Board's forecast for fiscal year 2012 took into account the estimated effect of the projected growth of the U.S. economy, tourism activity, personal consumption expenditures, federal transfers to individuals and the acceleration of investment in construction due to the Government's local stimulus package and the establishment of public-private partnerships. It also took into account the disbursement of the remaining ARRA funds, and the continuation of the implementation of the tax reform.

The United States economy started the contraction in fiscal year 2009 principally due to the downturn in the housing market and the world-wide financial crisis, which continued affecting fiscal years 2010 and 2011. These crises have made it more difficult for U.S. businesses and consumers to access credit, and have significantly reduced the value of financial assets. As a result of the declines in home values and assets prices, the U.S. Federal Reserve reported that the net worth of American households was reduced by nearly $11 trillion. These developments in the United States have had a significant and negative impact on the Commonwealth's economy. In addition, other variables contributing to the decrease of the Commonwealth's gross national product was the continuous contraction of the manufacturing and construction sectors, the volatility of oil prices experienced during the last years, and the budgetary pressures on government finances.

In terms of budgetary pressures, the Commonwealth has experienced a structural deficiency between recurring government revenues and expenditures. Prior to the current fiscal year, the government bridged the deficit resulting from the structural deficiency through the use of non-recurring measures, such as borrowing from GDB or in the bond market, postponing the payment of various government expenses, such as payments to suppliers and utilities providers, and other onetime measures such as the use of derivatives and borrowings collateralized with government owned real estate. However, during 2009, the current administration took over the Commonwealth and implemented the Fiscal Stabilization Plan and the Economic Reconstruction Plan, among other initiatives, as fully explained before on this MD&A under the heading "General Fund Financial Analysis".

Due to the Commonwealth dependence on oil for power generation and the level of consumption of gasoline by Puerto Rico residents, the high level of oil prices accounted for an increased outflow of local income during the last years. Oil accounts for approximately 70% of Puerto Rico's energy resources and each $10 increase in the average price of oil costs the Puerto Rico economy approximately $750 million annually and could lower Puerto Rico's economic growth by 0.6%. Although the situation improved significantly during fiscal year 2009, oil prices remained volatile during fiscals 2010 and 2011. During 2009, the current administration adopted an energy-diversification policy that includes a conversion to alternate energy sources, such as natural gas, whose cost is much lower and stable than oil. The Commonwealth, under the actual capital improvement program, has a multi-million dollar new natural gas pipeline project under development, among other new energy sources alternatives.

The dominant sectors of the Puerto Rico economy in terms of production and income are manufacturing and services. The manufacturing sector has undergone fundamental changes over the years as a result of increased

emphasis on higher-wage, high-technology industries, such as pharmaceuticals, biotechnology, computers, microprocessors, professional and scientific instruments, and certain high technology machinery and equipment. The service sector, which includes finance, insurance, real estate, wholesale and retail trade, transportation, communications and public utilities, and other services, plays a major role in the economy. It ranks second to manufacturing in contribution to gross domestic product and leads all sectors in providing employment.

Construction represents a relatively small segment of the economy compared to other sectors. However, it has made significant contributions to the growth of economic activity due to its multiplier effect on the whole economy. Since its peak in fiscal year 2000, real construction investment has declined at an average annual growth rate of 8.7%. Such rates of interest started to decrease significantly in fiscal year 2005, as a consequence of the current contraction of the local economic activity. During the last four fiscal years (from fiscal year 2007 to 2010) real construction investment decreased at an average annual rate of 17.0%. During the same time period, the total value of construction permits, in current dollars, decreased at an average annual rate of 16.8%. Public investment has been an important component of construction investment. During fiscal year 2010, approximately 49.3% of the total investment in construction was related to public projects, which represents an increase in its share of total construction investment compared to 37.9% in fiscal year 2000.

Most of the external factors that affect the Puerto Rico economy (other than oil prices) are determined by the policies and performance of the United States economy. These external factors include exports, direct investment, the amount of federal transfer payments, the level of interest rates, the rate of inflation, and tourist expenditures. During fiscal year 2010, approximately 68.1% of Puerto Rico's exports went to the United States mainland, which was also the source of approximately 51.2% of Puerto Rico's imports. In fiscal year 2010, Puerto Rico experienced a positive merchandise trade balance of $20.8 billion.

According to the Household Survey, the number of persons employed in Puerto Rico during fiscal year 2011 averaged 1,077,000, a decrease of 2.3% compared to previous fiscal year; and the unemployment rate averaged 15.9%. At January 31, 2012, the Household Survey reported 1,096,000 persons employed in Puerto Rico and an unemployment rate of 15.1%.

Requests for Information

This financial report is designed to provide a general overview of the Commonwealth's finances for all of the Commonwealth's residents, taxpayers, customers, investors, and creditors. This financial report seeks to demonstrate the Commonwealth's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Department of the Treasury of the Commonwealth of Puerto Rico, Área de Contabilidad Central, P.O. Box 9024140, San Juan, PR 00902-4140.

COMMONWEALTH OF PUERTO RICO

STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2011
(In thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Totals Primary Government	Component Units
ASSETS:				
Cash and cash equivalents in commercial banks	$ 437,712	$ 71,285	$ 508,997	$ 1,403,775
Cash and cash equivalents in governmental banks	298,086	75,274	373,360	339,659
Cash and cash equivalents in U.S. Treasury — restricted	-	339,666	339,666	-
Investments	136,943	-	136,943	4,819,694
Collateral from securities lending transactions	-	-	-	84,284
Receivables — net of allowance for uncollectibles:				
Income taxes	1,317,030	-	1,317,030	-
Sales and use tax	96,652	-	96,652	-
Unemployment and other insurance premiums	-	54,013	54,013	41,493
Intergovernmental	321,733	845	322,578	31,712
Accounts	160,638	-	160,638	1,056,200
Loans	170,242	-	170,242	4,316,080
Accrued interest	1,374	1,649	3,023	254,142
Other governmental entities	-	-	-	382,285
Other	41,106	5,662	46,768	125,713
Due from:				
Primary government	-	-	-	279,545
Component units — net of allowance for doubtful accounts amounting to $53.1 million in Governmental Activities	58,330	-	58,330	280,709
Other governmental entities	7,091	-	7,091	-
Internal balances	(35,746)	35,746	-	-
Inventories	11,231	-	11,231	484,957
Prepaid expenses	24,459	-	24,459	33,733
Other assets	11,965	-	11,965	-
Restricted assets:				
Cash and cash equivalents in commercial banks	302,560	1,343	303,903	1,464,882
Cash and cash equivalents in governmental banks	1,227,927	107,729	1,335,656	329,503
Receivables	-	4,568	4,568	-
Loans receivable from component units	-	413,449	413,449	-
Investments	1,081,420	35,157	1,116,577	5,318,568
Other	19,940	1,251	21,191	181,997
Long-term investments	-	-	-	1,453,866
Long-term receivables from:				
Loans	-	-	-	166,012
Other governmental entities	-	-	-	81,069
Other	-	-	-	102,761
Long-term amounts due from:				
Primary government	-	-	-	101,698
Component units	-	-	-	4,192,406
Real estate held for sale or future development	47,892	-	47,892	328,447
Capital assets:				
Land and other nondepreciable assets	1,984,294	-	1,984,294	7,329,075
Other capital assets (net of depreciation/amortization)	5,782,396	1,660	5,784,056	22,947,964
Deferred outflows of resources	142,805	-	142,805	181,302
Deferred expenses and other assets	318,291	30,504	348,795	498,558
TOTAL ASSETS	$13,966,371	$1,179,801	$15,146,172	$58,612,089

(Continued)

COMMONWEALTH OF PUERTO RICO

STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2011
(In thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Totals Primary Government	Component Units
LIABILITIES:				
Accounts payable and accrued liabilities	$ 840,187	$ 11,791	$ 851,978	$ 2,521,583
Deposits and escrow liabilities	-	-	-	6,221,831
Tax refunds payable	430,172	-	430,172	-
Due to:				
Primary government	-	-	-	100,695
Component units	312,325	-	312,325	495,434
Other governmental entities	45,212	469	45,681	357,104
Securities lending transactions and reverse repurchase agreements	-	-	-	1,141,703
Interest payable	655,792	-	655,792	635,368
Deferred revenue	324,751	24,789	349,540	108,815
Insurance benefits payable	-	86,338	86,338	-
Liability for automobile accident insurance and workmen compensation claims	-	-	-	363,304
Termination benefits payable	39,014	-	39,014	-
Due to primary government — long-term portion	-	-	-	424,228
Due to component units — long-term portion	-	-	-	3,977,681
Due to other governmental entities — long-term portion	-	249	249	139,953
Securities lending transactions and reverse repurchase agreements — long-term portion	-	-	-	50,800
Deferred revenue — long-term portion	-	-	-	12,194
Liability for automobile accident insurance and workmen compensation claims — long-term portion	-	-	-	587,315
Hedging derivative instruments — interest rate swaps	135,012	-	135,012	215,550
Investment derivative instruments — interest rate swaps	254,871	-	254,871	-
Liabilities payable within one year:				-
Commonwealth appropriation bonds	-	-	-	8,985
Bonds	374,027	-	374,027	740,192
Notes	191,857	-	191,857	816,849
Capital leases	5,606	-	5,606	1
Compensated absences	709,810	2,512	712,322	210,068
Lottery prizes	-	57,324	57,324	-
Voluntary termination benefits payable	34,386	470	34,856	32,374
Other long-term liabilities	258,589	-	258,589	185,135
Liabilities payable after one year:				-
Commonwealth appropriation bonds	743,184	-	743,184	812,210
Bonds	28,752,109	-	28,752,109	20,796,465
Notes	1,558,017	-	1,558,017	6,851,955
Capital leases	223,968	-	223,968	99
Net pension obligation	9,325,352	-	9,325,352	-
Net postemployment benefit obligation	174,918	-	174,918	-
Compensated absences	720,755	2,300	723,055	358,449
Lottery prizes	-	161,162	161,162	-
Voluntary termination benefits payable	297,784	2,171	299,955	134,745
Other long-term liabilities	2,066,874	-	2,066,874	769,032
Total liabilities	48,474,572	349,575	48,824,147	49,070,117
NET ASSETS (DEFICIT):				
Invested in capital assets — net of related debt	3,691,871	1,660	3,693,531	8,875,668
Restricted for:				
Trust — nonexpendable	-	-	-	165,269
Capital projects	178,833	-	178,833	255,061
Debt service	1,241,779	-	1,241,779	890,192
Lending activities	-	509,316	509,316	-
Payment of insurance benefits	-	330,925	330,925	-
Affordable housing and related loan insurance programs	3,087	-	3,087	486,765
Student loans and other educational purposes	-	-	-	108,600
Net assets in liquidation	31,243	-	31,243	-
Other	612,340	-	612,340	119,381
Unrestricted net assets (deficit)	(40,267,354)	(11,675)	(40,279,029)	(1,358,964)
TOTAL NET ASSETS (DEFICIT)	$ (34,508,201)	$830,226	$ (33,677,975)	$ 9,541,972

See accompanying notes to basic financial statements.

(Concluded)

COMMONWEALTH OF PUERTO RICO

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011
(In thousands)

		Program Revenues				Net (Expense) Revenue and Changes in Net Assets (Deficit)			
						Primary Government			
Functions	Expenses	Charges for Services	Operating Grants and Contributions	Earnings on Investments	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Units
PRIMARY GOVERNMENT:									
Governmental activities:									
General government	$ 2,880,614	$ 352,572	$ 302,071	$ -	$ -	$ (2,225,971)	$ -	$ (2,225,971)	$ -
Public safety	2,205,782	46,868	56,550	-	-	(2,102,364)	-	(2,102,364)	-
Health	3,022,000	143,366	969,153	-	-	(1,909,481)	-	(1,909,481)	-
Public housing and welfare	3,937,901	39,718	3,328,651	-	397,517	(172,015)	-	(172,015)	-
Education	4,469,337	1,794	1,298,306	-	-	(3,169,237)	-	(3,169,237)	-
Economic development	517,921	47,687	51,579	-	60,208	(358,447)	-	(358,447)	-
Payment of obligations of component units	6,411	-	-	-	-	(6,411)	-	(6,411)	-
Intergovernmental	430,941	-	-	-	-	(430,941)	-	(430,941)	-
Interest and other	1,807,230	-	-	-	-	(1,807,230)	-	(1,807,230)	-
Total governmental activities	19,278,137	632,005	6,006,310	-	457,725	(12,182,097)	-	(12,182,097)	-
Business-type activities:									
Unemployment insurance	635,145	272,105	406,352	-	-	-	43,312	43,312	-
Lotteries	697,746	890,508	-	-	-	-	192,762	192,762	-
Nonmajor proprietary funds	40,044	30,111	44,337	-	-	-	34,404	34,404	-
Total business-type activities	1,372,935	1,192,724	450,689	-	-	-	270,478	270,478	-
TOTAL PRIMARY GOVERNMENT	$20,651,072	$1,824,729	$6,456,999	$ -	$457,725	$ (12,182,097)	$270,478	$ (11,911,619)	$ -

(Continued)

COMMONWEALTH OF PUERTO RICO

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011
(In thousands)

		Program Revenues				Net (Expenses) Revenues and Changes in Net Assets (Deficit)			
						Primary Government			
Functions	Expenses	Charges for Services	Operating Grants and Contributions	Earnings on Investments	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Units
COMPONENT UNITS:									
Government Development Bank for Puerto Rico	$ 882,487	$ 642,504	$279,609	$ -	$ -	$ -	$ -	$ -	$ 39,626
Puerto Rico Highways and Transportation Authority	1,147,756	260,974	-	-	182,657	-	-	-	(704,125)
Puerto Rico Electric Power Authority	4,713,089	4,422,997	-	-	13,577	-	-	-	(276,515)
Puerto Rico Aqueduct and Sewer Authority	1,001,759	724,108	-	-	27,851	-	-	-	(249,800)
University of Puerto Rico	1,423,132	237,717	176,653	-	5,580	-	-	-	(1,003,182)
Puerto Rico Health Insurance Administration	2,017,294	764,426	-	-	-	-	-	-	(1,252,868)
Nonmajor component units	3,277,714	1,646,736	26,940	19,347	22,960	-	-	-	(1,561,731)
TOTAL COMPONENT UNITS	$14,463,231	$8,699,462	$483,202	$19,347	$252,625	-	-	-	(5,008,595)
GENERAL REVENUES:									
Taxes:									
Income taxes						4,726,036	-	4,726,036	-
Sales and use tax						1,129,006	-	1,129,006	-
Excise taxes						2,106,784	-	2,106,784	335,907
Other taxes						317,292	-	317,292	-
Revenue from global tobacco settlement agreement						71,097	-	71,097	-
Revenue from State Insurance Fund Corporation						51,179	-	51,179	-
Revenue from Puerto Rico Tourism Company						23,738	-	23,738	-
Revenue from Governing Board of 9-1-1 Services						9,693	-	9,693	-
Grants and contributions not restricted to specific programs						-	-	-	210,080
Payments from primary government						-	-	-	2,702,971
Unrestricted investment earnings — net						71,144	17,900	89,044	298,710
Other						163,184	-	163,184	117,264
Transfers						230,551	(230,551)	-	-
Total general revenues and transfers						8,899,704	(212,651)	8,687,053	3,664,932
CHANGE IN NET ASSETS (DEFICIT)						(3,282,393)	57,827	(3,224,566)	(1,343,663)
NET ASSETS (DEFICIT) — Beginning of year (as restated) (Note 4)						(31,225,808)	772,399	(30,453,409)	10,885,635
NET ASSETS (DEFICIT) — End of year						$ (34,508,201)	$ 830,226	$ (33,677,975)	$ 9,541,972

See accompanying notes to basic financial statements.

(Concluded)

COMMONWEALTH OF PUERTO RICO

BALANCE SHEET — GOVERNMENTAL FUNDS
JUNE 30, 2011
(In thousands)

ASSETS	General	Pledged Sales and Use Tax	Debt Service	COFINA Special Revenue	COFINA Debt Service	Other Governmental	Total Governmental
CASH AND CASH EQUIVALENTS IN COMMERCIAL BANKS	$ 389,878	$ -	$ 13,136	$ -	$ -	$ 34,698	$ 437,712
CASH AND CASH EQUIVALENTS IN GOVERNMENTAL BANKS	46,006	-	228,654	-	-	23,426	298,086
INVESTMENTS	-	-	-	-	-	136,943	136,943
RECEIVABLES:							
Income taxes	1,317,030	-	-	-	-	-	1,317,030
Sales and use tax	-	96,652	-	-	-	-	96,652
Intergovernmental	294,529	-	27,204	-	-	-	321,733
Accounts	159,049	-	-	-	-	1,589	160,638
Loans	170,203	-	-	-	-	39	170,242
Accrued interest	777	-	145	-	-	452	1,374
Other	-	-	-	-	-	41,106	41,106
DUE FROM:							
Other funds	42,311	-	-	-	-	104,364	146,675
Component units	24,593	-	-	-	-	33,737	58,330
Other governmental entities	648	-	-	-	-	6,443	7,091
OTHER ASSETS	11,965	-	-	-	-	-	11,965
RESTRICTED ASSETS:							
Cash and cash equivalents in commercial banks	50,044	-	5,384	-	4,973	242,159	302,560
Cash and cash equivalents in governmental banks	112,242	-	494,989	347,701	14,788	258,207	1,227,927
Investments	435,837	-	-	156,894	488,689	-	1,081,420
Due from other funds	-	-	-	-	96,652	-	96,652
Other restricted assets	19,200	-	-	-	740	-	19,940
REAL ESTATE HELD FOR SALE OR FUTURE DEVELOPMENT	42,955	-	-	-	-	4,937	47,892
TOTAL ASSETS	$3,117,267	$96,652	$769,512	$504,595	$605,842	$888,100	$5,981,968

(Continued)

COMMONWEALTH OF PUERTO RICO

BALANCE SHEET — GOVERNMENTAL FUNDS
JUNE 30, 2011
(In thousands)

	General	Pledged Sales and Use Tax	Debt Service	COFINA Special Revenue	COFINA Debt Service	Other Governmental	Total Governmental
LIABILITIES AND FUND BALANCES (DEFICIT)							
LIABILITIES:							
Accounts payable and accrued liabilities	$ 792,442	$ -	$ -	$ 24	$ -	$ 44,300	$ 836,766
Tax refunds payable	430,172	-	-	-	-	-	430,172
Due to:							
Other funds	180,737	96,652	-	-	-	1,684	279,073
Other governmental entities	16,247	-	-	-	-	28,965	45,212
Component units	287,308	-	-	-	-	25,017	312,325
Notes payable	32,179	-	-	-	-	-	32,179
Bonds payable	-	-	252,605	-	-	81,002	333,607
Interest payable	148,026	-	221,278	-	-	82,219	451,523
Deferred revenue	1,417,120	-	-	-	-	129,493	1,546,613
Termination benefits payable	39,014	-	-	-	-	-	39,014
Other current liabilities	25,082	-	-	-	-	2,364	27,446
Total liabilities	3,368,327	96,652	473,883	24	-	395,044	4,333,930
FUND BALANCES (DEFICIT):							
Nonspendable	17,747	-	-	-	-	-	17,747
Spendable:							
Restricted	551,699	-	26,490	504,571	605,842	378,680	2,067,282
Committed	629,591	-	269,139	-	-	39,624	938,354
Assigned	14,512	-	-	-	-	74,752	89,264
Unassigned	(1,464,609)	-	-	-	-	-	(1,464,609)
Total fund balances (deficit)	(251,060)	-	295,629	504,571	605,842	493,056	1,648,038
TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)	$ 3,117,267	$96,652	$769,512	$504,595	$605,842	$888,100	$ 5,981,968

See accompanying notes to basic financial statements.

(Concluded)

COMMONWEALTH OF PUERTO RICO

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS (DEFICIT) — GOVERNMENTAL FUNDS
JUNE 30, 2011
(In thousands)

TOTAL FUND BALANCE OF GOVERNMENTAL FUNDS	$ 1,648,038
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS (DEFICIT) ARE DIFFERENT THAN THE AMOUNTS REPORTED IN THE GOVERNMENTAL FUNDS BECAUSE:	
Inventories and prepaid expenses that are not reported in governmental funds and are reported in the statement of net assets (deficit)	35,690
Deferred outflows of resources	142,805
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	7,766,690
Deferred revenue reported in the governmental funds are recognized as revenue in the governmental activities	1,221,862
Debt issued by the Commonwealth have associated costs that are paid from current available resources in the funds. However, these costs are deferred in the statement of net assets (deficit)	318,291
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Accounts payable and accrued liabilities	(3,421)
Voluntary termination benefits payable	(332,170)
Derivative instruments interest rate swaps	(389,883)
Appropriation bonds	(743,184)
Bonds payable	(28,792,529)
Notes payable	(1,717,695)
Capital leases payable	(229,574)
Compensated absences	(1,430,565)
Net pension obligation	(9,325,352)
Net postemployment benefit obligation	(174,918)
Interest payable	(204,269)
Other long-term liabilities	(2,298,017)
TOTAL NET DEFICIT OF GOVERNMENTAL ACTIVITIES	$ (34,508,201)

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICIT)
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011
(In thousands)

	General	Pledged Sales and Use Tax	Debt Service	COFINA Special Revenue	COFINA Debt Service	Other Governmental	Total Governmental
REVENUES:							
Taxes:							
Income taxes	$ 4,749,942	$ -	$ -	$ -	$ -	$ -	$ 4,749,942
Sales and use tax	555,990	573,016	-	-	-	-	1,129,006
Excise taxes	2,106,784	-	-	-	-	-	2,106,784
Property taxes	241,719	-	-	-	-	-	241,719
Other taxes	83,589	-	-	-	-	-	83,589
Charges for services	632,005	-	-	-	-	-	632,005
Revenue from global tobacco settlement agreement	71,097	-	-	-	-	-	71,097
Revenues from component units	84,610	-	-	-	-	-	84,610
Intergovernmental	6,002,950	-	122,187	-	-	1,075	6,126,212
Interest and investment earnings	22,138	-	1,433	554	796	3,608	28,529
Other	200,029	-	-	-	7,738	2,627	210,394
Total revenues	14,750,853	573,016	123,620	554	8,534	7,310	15,463,887
EXPENDITURES:							
Current:							
General government	1,145,340	-	-	63	39	139,436	1,284,878
Public safety	2,044,398	-	-	-	-	-	2,044,398
Health	2,928,477	-	-	-	-	4,359	2,932,836
Public housing and welfare	3,734,850	-	-	-	-	1,254	3,736,104
Education	4,450,805	-	-	-	-	2,527	4,453,332
Economic development	460,878	-	-	-	-	108	460,986
Payment of obligations of component units	-	-	-	6,411	-	-	6,411
Intergovernmental	429,702	-	-	-	-	469	430,171
Capital outlays	227,003	-	-	-	-	225,479	452,482
Debt service:							
Principal	658,752	-	1,081,697	-	-	105,336	1,845,785
Interest	312,462	-	523,040	-	540,574	206,114	1,582,190
Other — debt issuance costs	-	-	19,797	-	-	-	19,797
Total expenditures	16,392,667	-	1,624,534	6,474	540,613	685,082	19,249,370
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,641,814)	573,016	(1,500,914)	(5,920)	(532,079)	(677,772)	(3,785,483)

(Continued)

COMMONWEALTH OF PUERTO RICO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICIT)
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011
(In thousands)

	General	Pledged Sales and Use Tax	Debt Service	COFINA Special Revenue	COFINA Debt Service	Other Governmental	Total Governmental
OTHER FINANCING SOURCES (USES):							
Transfers in	$ 2,443,735	$ -	$ 722,456	$ 1,167,924	$ 573,016	$ 797,448	$ 5,704,579
Transfers out	(1,069,590)	(573,016)	(658,146)	(1,557,605)	(1,167,924)	(447,747)	(5,474,028)
Proceeds from long term debt issued	559,626	-	544,675	-	327,512	252,322	1,684,135
Issuance of refunding bonds	-	-	1,364,475	-	-	-	1,364,475
Payments to refunded bonds escrow agent	-	-	(483,515)	-	-	-	(483,515)
Sale of capital assets	4,081	-	-	-	-	-	4,081
Discount on bonds issued	-	-	(20,253)	-	-	-	(20,253)
Capital leases	198	-	-	-	-	-	198
Termination fee on swap agreements	-	-	(23,854)	-	-	-	(23,854)
Total other financing sources (uses)	1,938,050	(573,016)	1,445,838	(389,681)	(267,396)	602,023	2,755,818
NET CHANGE IN FUND BALANCES (DEFICIT)	296,236	-	(55,076)	(395,601)	(799,475)	(75,749)	(1,029,665)
FUND BALANCES (DEFICIT) — Beginning of of year, as restated	(547,296)	-	350,705	900,172	1,405,317	568,805	2,677,703
FUND BALANCES (DEFICIT) — End of year	$ (251,060)	$ -	$ 295,629	$ 504,571	$ 605,842	$ 493,056	$ 1,648,038

See accompanying notes to basic financial statements. (Concluded)

COMMONWEALTH OF PUERTO RICO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICIT) TO THE STATEMENT OF ACTIVITIES-GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011
(In thousands)

NET CHANGE IN FUND BALANCES (DEFICIT) — Total governmental funds		$ (1,029,665)
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation and amortization expense. In the current period, these amounts are:		
Capital outlays	452,482	
Less: depreciation and amortization expense	(264,692)	187,790
The net effect of various transactions involving capital assets (i.e. sales, trade-ins, and donations) is to increase net assets.		185,099
The issuance of long-term debt (e.g. bonds, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Proceeds from issuance of long-term debt	(2,950,271)	
Principal payments of long-term debt	2,300,370	
Other	(179,309)	(829,210)
Bond issuance costs are expenditures in governmental funds, but are deferred assets in the statement of net assets (deficit).		(4,651)
Some revenues in the statement of activities do not provide current financial resources, and therefore, are deferred in governmental funds. Also, revenues related to prior periods that became available during the current period are reported in governmental funds but are eliminated in statement of activities. This amount is the net adjustment.		(49,421)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(1,783,801)
Changes in fair value of investment derivative instruments do not require the use of current financial resources and, therefore, are not reported as investment revenue in governmental funds.		42,615
Generally, inventory and prepayments are recorded as expenditures in the governmental funds when purchased rather than capitalized as an asset. However, these assets are capitalized in the statement of net assets (deficit).		(1,149)
CHANGE IN NET ASSETS (DEFICIT) OF GOVERNMENTAL ACTIVITIES		$ (3,282,393)

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

STATEMENT OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL — BUDGET BASIS — GENERAL FUND
YEAR ENDED JUNE 30, 2011
(In thousands)

	Original Budget	Amended Budget	Actual
REVENUES:			
Income taxes	$ 5,374,500	$ 4,912,500	$ 4,909,212
Property taxes	340,000	238,000	241,719
Excise taxes	860,000	1,532,000	1,576,940
Other taxes	82,000	82,000	83,327
Sales and use taxes	604,000	555,000	553,020
Charges for services	231,000	191,000	228,003
Intergovernmental	344,000	341,000	333,031
Revenues from component units	54,000	24,000	23,738
Other	43,000	43,000	44,829
Total revenues	7,932,500	7,918,500	7,993,819
EXPENDITURES — Current:			
General government	1,409,914	1,458,443	1,410,070
Public safety	1,886,318	1,929,538	1,947,739
Health	1,501,706	1,628,061	1,654,661
Public housing and welfare	458,976	467,814	466,226
Education	2,951,861	2,970,843	2,800,677
Economic development	368,293	395,139	417,853
Intergovernmental	371,619	370,869	378,243
Total expenditures	8,948,687	9,220,707	9,075,469
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(1,016,187)	(1,302,207)	(1,081,650)
OTHER FINANCING SOURCES (USES):			
Notes payable issued	-	-	559,626
Transfer in from COFINA	1,061,000	1,381,020	1,551,965
Transfer in from Debt Service Fund and Lotteries Fund	156,000	122,000	861,515
Transfer out and other payments for debt service	(200,813)	(200,813)	(1,547,564)
Total other financing sources (uses)	1,016,187	1,302,207	1,425,542
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	$ -	$ -	$ 343,892

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

STATEMENT OF NET ASSETS (DEFICIT) — PROPRIETARY FUNDS
JUNE 30, 2011
(In thousands)

	Business-Type Activities — Enterprise Funds			
	Unemployment Insurance	Lotteries	Other Proprietary	Total Proprietary
ASSETS:				
Current assets:				
Cash and cash equivalents in commercial banks	$ -	$ 71,224	$ 61	$ 71,285
Cash and cash equivalents in governmental banks	-	13,422	61,852	75,274
Cash and cash equivalents in commercial banks — restricted	870	-	473	1,343
Cash and cash equivalents in governmental banks — restricted	15,852	-	91,877	107,729
Cash and cash equivalents in U.S. Treasury — restricted	339,666	-	-	339,666
Insurance premiums receivables — net	50,143	-	3,870	54,013
Intergovernmental receivable	845	-	-	845
Due from other funds	-	-	2,682	2,682
Loans receivable from component unit — restricted	-	-	16,547	16,547
Accrued interest receivable	1,337	-	312	1,649
Other receivables	39	5,586	37	5,662
Restricted receivables	-	-	4,568	4,568
Total current assets	408,752	90,232	182,279	681,263
Noncurrent assets:				
Loans receivable from component unit — restricted	-	-	396,902	396,902
Due from other funds	-	55,575	18,116	73,691
Restricted investments	-	-	35,157	35,157
Capital assets — net	-	1,660	-	1,660
Other noncurrent assets	-	30,504	-	30,504
Other restricted assets	-	-	1,251	1,251
Total assets	408,752	177,971	633,705	1,220,428
LIABILITIES AND NET ASSETS (DEFICIT):				
Current liabilities:				
Accounts payable and accrued liabilities	-	9,141	2,650	11,791
Due to other funds	16,729	23,095	803	40,627
Due to other governmental entities	-	-	469	469
Deferred revenue	10,513	12,206	2,070	24,789
Compensated absences	-	1,629	883	2,512
Lottery prizes	-	57,324	-	57,324
Termination benefits	-	470	-	470
Insurance benefits payable	85,783	-	555	86,338
Total current liabilities	113,025	103,865	7,430	224,320
Noncurrent liabilities:				
Due to other governmental entities	-	-	249	249
Lottery prizes, excluding current portion	-	161,162	-	161,162
Compensated absences, excluding current portion	-	1,071	1,229	2,300
Termination benefits	-	2,171	-	2,171
Total liabilities	113,025	268,269	8,908	390,202
NET ASSETS (DEFICIT):				
Invested in capital assets — net of related debt	-	1,660	-	1,660
Restricted for payment of insurance benefits	295,727	-	35,198	330,925
Restricted for lending activities	-	-	509,316	509,316
Unrestricted	-	(91,958)	80,283	(11,675)
TOTAL NET ASSETS (DEFICIT)	$295,727	$ (90,298)	$624,797	$ 830,226

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS (DEFICIT)
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011
(In thousands)

	Business-Type Activities — Enterprise Funds			
	Unemployment Insurance	Lotteries	Other Proprietary	Total Proprietary
OPERATING REVENUES:				
Insurance premiums	$ 272,105	$ -	$ 22,106	$ 294,211
Lottery ticket sales	-	890,088	-	890,088
Interest	-	-	8,005	8,005
Other	-	420	-	420
Total operating revenues	272,105	890,508	30,111	1,192,724
OPERATING EXPENSES:				
Insurance benefits	635,145	-	3,413	638,558
Lottery prizes	-	560,464	-	560,464
General, administrative, and other operating expenses	-	137,282	16,933	154,215
Total operating expenses	635,145	697,746	20,346	1,353,237
OPERATING INCOME (LOSS)	(363,040)	192,762	9,765	(160,513)
NONOPERATING REVENUES (EXPENSES):				
Contributions from U.S. government	406,352	-	44,337	450,689
Contributions to component unit	-	-	(19,698)	(19,698)
Interest and investment earnings	12,823	256	4,821	17,900
Total nonoperating revenues	419,175	256	29,460	448,891
INCOME BEFORE TRANSFERS	56,135	193,018	39,225	288,378
TRANSFERS FROM OTHER FUNDS	-	-	3,073	3,073
TRANSFERS TO OTHER FUNDS	(51,205)	(179,175)	(3,244)	(233,624)
NET CHANGE IN NET ASSETS (DEFICIT)	4,930	13,843	39,054	57,827
NET ASSETS (DEFICIT) — Beginning of year, as restated	290,797	(104,141)	585,743	772,399
NET ASSETS (DEFICIT) — End of year	$ 295,727	$ (90,298)	$624,797	$ 830,226

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

STATEMENT OF CASH FLOWS — PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011
(In thousands)

	Business-Type Activities — Enterprise Funds			
	Unemployment Insurance	Lotteries	Other Proprietary	Total Proprietary
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers and users	$ 282,624	$ 890,717	$ 22,125	$1,195,466
Other receipts	-	153	3	156
Payments to suppliers	-	(56,448)	(8,401)	(64,849)
Payments to employees	-	(75,839)	(8,199)	(84,038)
Payments of lottery prizes	-	(565,880)	-	(565,880)
Payments of insurance benefits	(665,838)	-	(3,731)	(669,569)
Other payments	-	-	(520)	(520)
Net cash provided by (used in) operating activities	(383,214)	192,703	1,277	(189,234)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Intergovernmental grants and contributions	406,737	-	44,337	451,074
Contributions to component unit	-	-	(19,698)	(19,698)
Transfers from other funds	-	-	3,307	3,307
Transfers to other funds	(52,783)	(203,369)	(3,244)	(259,396)
Net cash provided by (used in) noncapital financing activities	353,954	(203,369)	24,702	175,287
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES — Capital expenditures	-	(603)	-	(603)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest collected on deposits, investments and loans	12,823	256	8,722	21,801
Loans originated	-	-	(56,144)	(56,144)
Principal collected on loans	-	-	18,605	18,605
Proceeds from sales and maturities of investments	-	-	7,851	7,851
Purchases of investments	-	-	(8,491)	(8,491)
Net cash provided by (used in) investing activities	12,823	256	(29,457)	(16,378)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(16,437)	(11,013)	(3,478)	(30,928)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR, AS RESTATED	372,825	95,659	157,741	626,225
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 356,388	$ 84,646	$154,263	$ 595,297

(Continued)

COMMONWEALTH OF PUERTO RICO

STATEMENT OF CASH FLOWS — PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011
(In thousands)

	Business-Type Activities — Enterprise Funds			
	Unemployment Insurance	Lotteries	Other Proprietary	Total Proprietary
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:				
Operating income (loss)	$(363,040)	$ 192,762	$ 9,765	$ (160,513)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Interests earned on deposits, loans and investments	-	-	(8,002)	(8,002)
Depreciation	-	473	-	473
Changes in operating assets and liabilities:				
(Increase) decrease in accounts and loans receivable	18,478	(1,035)	1	17,444
Decrease in in due from other funds	-	-	7	7
Increase in other assets	-	(212)	-	(212)
Decrease in other restricted assets	-	-	118	118
Increase in accounts payable and accrued liabilities	-	2,510	706	3,216
Decrease in due to other governmental entities	-	-	(515)	(515)
Decrease in obligation for unpaid lottery awards	-	(5,416)	-	(5,416)
Increase (decrease) in deferred revenues	(7,960)	1,665	(552)	(6,847)
Increase (decrease) in compensated absences	-	(685)	67	(618)
Increase in termination benefits payable	-	2,641	-	2,641
Decrease in liability for insurance benefits payable	(30,692)	-	(318)	(31,010)
Total adjustments	(20,174)	(59)	(8,488)	(28,721)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$(383,214)	$ 192,703	$ 1,277	$ (189,234)

See accompanying notes to basic financial statements. (Concluded)

COMMONWEALTH OF PUERTO RICO

STATEMENT OF FIDUCIARY NET ASSETS — FIDUCIARY FUNDS
JUNE 30, 2011
(In thousands)

	Pension Trust	Special Deposits-Agency
ASSETS:		
Cash and cash equivalents in commercial banks — unrestricted	$ 495,293	$ 697,988
Cash and cash equivalents in governmental banks:		
Unrestricted	55,698	661,560
Restricted	411,946	-
Collateral for securities lending transactions	208,475	-
Investments:		
Debt and equity securities — at fair value	4,261,593	-
Other	91,087	1,270
Receivables — net:		
Accounts	190,299	-
Loans and advances	1,682,890	-
Accrued interests and dividends	11,839	-
Other	62,252	9,393
Capital assets — net	31,155	-
Other assets	39,019	-
Total assets	7,541,546	1,370,211
LIABILITIES:		
Accounts payable and accrued liabilities	104,202	1,370,211
Securities lending transactions	208,475	-
Interest payable	13,876	-
Other liabilities	37,862	-
Bonds payable	3,003,482	-
Total liabilities	3,367,897	1,370,211
NET ASSETS — Held in trust for pension and other benefits	$4,173,649	$ -

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS — PENSION TRUST FUNDS
YEAR ENDED JUNE 30, 2011
(In thousands)

ADDITIONS:	
Contributions:	
Sponsor	$ 633,744
Participants	448,094
Special	236,884
Total contributions	1,318,722
Investment income and investment expense:	
Interest	231,143
Dividends	14,435
Net change in fair value of investments	906,927
Investment expenses	(11,327)
Net investment income	1,141,178
Other income	50,235
Total additions	2,510,135
DEDUCTIONS:	
Pension and other benefits	1,910,014
Refunds of contributions	99,660
General and administrative	79,848
Interest on bonds payable	189,342
Total deductions	2,278,864
NET CHANGE IN NET ASSETS HELD IN TRUST FOR PENSION AND OTHER BENEFITS	231,271
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER BENEFITS:	
Beginning of year	3,942,378
End of year	$ 4,173,649

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF NET ASSETS (DEFICIT) — MAJOR COMPONENT UNITS
JUNE 30, 2011
(In thousands)

	Major Component Units								
ASSETS	Government Development Bank for Puerto Rico	Puerto Rico Highways and Transportation Authority	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority	University of Puerto Rico	Puerto Rico Health Insurance Administration	Major Component Units Totals	Nonmajor Component Units Totals	All Component Units Totals
CURRENT ASSETS:									
Cash and cash equivalents in commercial banks	$ 649,956	$ 24,354	$ 64,845	$ 62,630	$ 98,824	$ 29,029	$ 929,638	$ 474,137	$ 1,403,775
Cash and cash equivalents in governmental banks	-	2,604	11	-	2,180	95,411	100,206	239,453	339,659
Investments	3,775,241	-	-	-	73,998	-	3,849,239	970,455	4,819,694
Restricted assets:									
Cash and cash equivalents in commercial banks	526,765	-	-	-	8,397	-	535,162	162,407	697,569
Cash and cash equivalents in governmental banks	-	-	-	-	-	1,321	1,321	225,907	227,228
Investments	565,404	-	-	-	54,650	-	620,054	128,690	748,744
Other restricted assets	-	-	-	-	-	-	-	30,578	30,578
Collateral from securities lending transactions	-	-	-	-	-	-	-	84,284	84,284
Receivables — net:									
Insurance premium	-	-	-	-	-	-	-	41,493	41,493
Intergovernmental	-	-	-	3,344	15,761	-	19,105	12,607	31,712
Accounts	-	1,966	705,712	89,651	49,938	25,129	872,396	183,804	1,056,200
Loans and advances	4,212,463	-	-	-	-	-	4,212,463	103,617	4,316,080
Accrued interest	231,028	-	-	-	-	-	231,028	23,114	254,142
Other governmental entities	-	3,998	230,190	39,624	10,712	24,409	308,933	73,352	382,285
Other	-	-	-	-	3,622	-	3,622	122,091	125,713
Due from:									
Primary government	18,628	-	67,656	14,173	40,843	71,501	212,801	66,744	279,545
Component units	-	3,810	178,910	20,141	17,350	-	220,211	60,498	280,709
Inventories	-	-	424,656	28,572	4,570	-	457,798	27,159	484,957
Prepaid expenses	-	5,395	-	6,130	4,104	80	15,709	18,024	33,733
Total current assets	9,979,485	42,127	1,671,980	264,265	384,949	246,880	12,589,686	3,048,414	15,638,100

(Continued)

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF NET ASSETS (DEFICIT) — MAJOR COMPONENT UNITS
JUNE 30, 2011
(In thousands)

	Major Component Units								
ASSETS (Cont'd)	Government Development Bank for Puerto Rico	Puerto Rico Highways and Transportation Authority	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority	University of Puerto Rico	Puerto Rico Health Insurance Administration	Major Component Units Totals	Nonmajor Component Units Totals	All Component Units Totals
NONCURRENT ASSETS:									
Restricted assets:									
Cash and cash equivalents in commercial banks	$ -	$ 2,943	$ 545,697	$ 166,930	$ 4,802	$ -	$ 720,372	$ 46,941	$ 767,313
Cash and cash equivalents in governmental banks	-	32,062	-	42,922	-	-	74,984	27,291	102,275
Investments	1,007,948	780,130	628,784	-	99,441	-	2,516,303	2,053,521	4,569,824
Other restricted assets	67,934	26,261	-	-	-	-	94,195	57,224	151,419
Investments	-	-	-	-	-	-	-	1,453,866	1,453,866
Receivables:									
Loans, interest, and other	-	-	-	-	3,313	-	3,313	162,699	166,012
Other governmental entities	1,882	138	-	-	64,986	-	67,006	14,063	81,069
Other	-	-	95,407	-	-	-	95,407	7,354	102,761
Due from:									
Primary government	64,278	-	-	-	24,720	-	88,998	12,700	101,698
Component units	4,131,043	-	-	-	-	-	4,131,043	61,363	4,192,406
Real estate held for sale or future development	126,641	-	-	-	-	-	126,641	201,806	328,447
Capital assets, not being depreciated	59,300	2,432,129	1,132,002	1,778,747	159,090	-	5,561,268	1,767,807	7,329,075
Capital assets, depreciable — net	11,750	8,664,984	5,680,600	5,433,273	811,634	167	20,602,408	2,345,556	22,947,964
Deferred outflows of resources	-	63,299	69,142	-	-	-	132,441	48,861	181,302
Deferred expenses and other assets	59,548	112,346	108,733	54,889	68,590	-	404,106	94,452	498,558
Total noncurrent assets	5,530,324	12,114,292	8,260,365	7,476,761	1,236,576	167	34,618,485	8,355,504	42,973,989
TOTAL	$15,509,809	$12,156,419	$9,932,345	$7,741,026	$1,621,525	$247,047	$47,208,171	$11,403,918	$58,612,089

(Continued)

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF NET ASSETS (DEFICIT) — MAJOR COMPONENT UNITS
JUNE 30, 2011
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Major Component Units: Government Development Bank for Puerto Rico	Major Component Units: Puerto Rico Highways and Transportation Authority	Major Component Units: Puerto Rico Electric Power Authority	Major Component Units: Puerto Rico Aqueduct and Sewer Authority	Major Component Units: University of Puerto Rico	Major Component Units: Puerto Rico Health Insurance Administration	Major Component Units Totals	Nonmajor Component Units Totals	All Component Units Totals
LIABILITIES:									
Current liabilities:									
Accounts payable and accrued liabilities	$ 48,215	$ 149,769	$ 968,715	$ 229,000	$ 93,402	$277,770	$ 1,766,871	$ 754,712	$ 2,521,583
Deposits and escrow liabilities	5,521,023	-	39,505	6,146	-	-	5,566,674	548,540	6,115,214
Due to:									
Primary government	-	4,838	-	16,547	-	7,239	28,624	72,071	100,695
Component units	-	34,303	29,084	77,346	49,427	-	190,160	305,274	495,434
Other governmental entities	-	6,570	193,852	36,029	1,402	-	237,853	119,251	357,104
Securities lending transactions and reverse repurchase agreements	970,819	-	-	-	-	-	970,819	170,884	1,141,703
Interest payable	30,722	246,990	183,314	61,862	5,022	-	527,910	105,393	633,303
Deferred revenue	-	-	-	19,269	-	-	19,269	89,546	108,815
Notes payable, current portion	90,981	-	166,465	241,744	790	-	499,980	316,869	816,849
Commonwealth appropriation bonds, current portion	-	-	-	8,985	-	-	8,985	-	8,985
Bonds payable, current portion	68,559	129,980	361,060	3,123	28,800	-	591,522	148,670	740,192
Accrued compensated absences, current portion	3,892	11,478	87,274	12,738	31,359	458	147,199	62,869	210,068
Voluntary termination benefits payable	2,200	-	-	-	-	188	2,388	29,986	32,374
Liability for automobile accident insurance and workmen compensation claims	-	-	-	-	-	-	-	363,304	363,304
Capital leases	-	-	-	-	-	-	-	1	1
Current portion of other long-term liabilities	95,548	-	69,408	8,432	2,337	-	175,725	9,410	185,135
Total current liabilities	6,831,959	583,928	2,098,677	721,221	212,539	285,655	10,733,979	3,096,780	13,830,759

(Continued)

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF NET ASSETS (DEFICIT) — MAJOR COMPONENT UNITS
JUNE 30, 2011
(In thousands)

	Major Component Units								
LIABILITIES AND NET ASSETS (DEFICIT) (Cont'd)	**Government Development Bank for Puerto Rico**	**Puerto Rico Highways and Transportation Authority**	**Puerto Rico Electric Power Authority**	**Puerto Rico Aqueduct and Sewer Authority**	**University of Puerto Rico**	**Puerto Rico Health Insurance Administration**	**Major Component Units Totals**	**Nonmajor Component Units Totals**	**All Component Units Totals**
Noncurrent liabilities:									
Due to:									
Primary government	$ -	$ -	$ -	$ 396,902	$ -	$ -	$ 396,902	$ 27,326	$ 424,228
Component units	-	1,294,307	-	1,002,179	77,072	171,080	2,544,638	1,433,043	3,977,681
Other governmental entities	-	-	-	-	123,356	-	123,356	16,597	139,953
Deposits and escrow liabilities	32,665	-	-	73,952	-	-	106,617		106,617
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-	-	50,800	50,800
Interest payable	-	-	-	-	-	2,065	2,065		2,065
Deferred revenue	-	-	-	-	-	-	-	12,194	12,194
Notes payable	5,180,091	-	34,036	-	1,218	-	5,215,345	1,636,610	6,851,955
Commonwealth appropriation bonds	4,812	-	-	654,611	-	-	659,423	152,787	812,210
Bonds payable	845,394	6,256,981	7,500,192	1,913,021	614,934	-	17,130,522	3,665,943	20,796,465
Accrued compensated absences	767	10,911	139,903	33,704	126,108	305	311,698	46,751	358,449
Voluntary termination benefits payable	-	77,132	-	-	-	1,979	79,111	55,634	134,745
Liability for automobile accident insurance and workmen compensation claims	-	-	-	-	-	-	-	587,315	587,315
Capital leases	-	-	-	-	-	-	-	99	99
Hedging derivative instruments — interest rate swaps	-	97,547	69,142	-	-	-	166,689	48,861	215,550
Other long-term liabilities	29,979	92,667	259,890	11,024	93,951	64,291	551,802	217,230	769,032
Total noncurrent liabilities	6,093,708	7,829,545	8,003,163	4,085,393	1,036,639	239,720	27,288,168	7,951,190	35,239,358
Total liabilities	12,925,667	8,413,473	10,101,840	4,806,614	1,249,178	525,375	38,022,147	11,047,970	49,070,117
NET ASSETS (DEFICIT):									
Invested in capital assets — net of related debt	71,050	3,262,710	17,070	3,374,252	337,279	167	7,062,528	1,813,140	8,875,668
Restricted for:									
Trust — nonexpendable	-	-	-	-	-	-	-	165,269	165,269
Capital projects	-	65,697	77,606	-	5,389	-	148,692	106,369	255,061
Debt service	-	520,347	-	-	52,088	-	572,435	317,757	890,192
Affordable housing and related loan insurance programs	362,049	-	-	-	-	-	362,049	124,716	486,765
Student loans and other educational purposes	-	-	-	-	93,945	-	93,945	14,655	108,600
Other specified purposes	-	-	-	24,482	1,703	-	26,185	93,196	119,381
Unrestricted	2,151,043	(105,808)	(264,171)	(464,322)	(118,057)	(278,495)	920,190	(2,279,154)	(1,358,964)
Total net assets (deficit)	2,584,142	3,742,946	(169,495)	2,934,412	372,347	(278,328)	9,186,024	355,948	9,541,972
TOTAL	$15,509,809	$12,156,419	$9,932,345	$7,741,026	$1,621,525	$ 247,047	$47,208,171	$11,403,918	$58,612,089

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF ACTIVITIES — MAJOR COMPONENT UNITS
YEAR ENDED JUNE 30, 2011
(In thousands)

		Program Revenues					General Revenues and Transfers								
	Expenses	Charges for Services	Operating Grants and Contributions	Earnings on Investments	Capital Grants and Contributions	Net Revenues (Expenses) and Changes in Net Assets (Deficit)	Payments From Primary Government	Payments from (to) Other Component Units	Grants and Contributions Not Restricted to Specific Programs	Excise Taxes	Interest and Investment Earnings	Other	Change in Net Assets (Deficit)	Net Assets (Deficit), Beginning of Year (As Restated)	Net Assets (Deficit), End of Year
Major component units:															
Government Development Bank for Puerto Rico	$ 882,487	$ 642,504	$279,609	$ -	$ -	$ 39,626	$ 555	$ -	$ -	$ -	$ -	$ -	$ 40,181	$ 2,543,961	$2,584,142
Puerto Rico Highways and Transportation Authority	1,147,756	260,974	-	-	182,657	(704,125)	-	-	-	271,388	23,377	-	(409,360)	4,152,306	3,742,946
Puerto Rico Electric Power Authority	4,713,089	4,422,997	-	-	13,577	(276,515)	-	-	-	-	4,087	-	(272,428)	102,933	(169,495)
Puerto Rico Aqueduct and Sewer Authority	1,001,759	724,108	-	-	27,851	(249,800)	129,992	-	-	-	4,578	3,012	(112,218)	3,046,630	2,934,412
University of Puerto Rico	1,423,132	237,717	176,653	-	5,580	(1,003,182)	768,158	71,214	194,160	-	2,993	28,068	61,411	310,936	372,347
Puerto Rico Health Insurance Administration	2,017,294	764,426	-	-	-	(1,252,868)	1,217,049	-	-	-	4,991	-	(30,828)	(247,500)	(278,328)
Nonmajor component units	3,277,714	1,646,736	26,940	19,347	22,960	(1,561,731)	587,217	(71,214)	15,920	64,519	258,684	86,184	(620,421)	976,369	355,948
	$14,463,231	$8,699,462	$483,202	$19,347	$252,625	$(5,008,595)	$2,702,971	$ -	$210,080	$335,907	$298,710	$117,264	$(1,343,663)	$10,885,635	$9,541,972

See accompanying notes to basic financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Commonwealth of Puerto Rico (the “Commonwealth”) was constituted on July 25, 1952, under the provisions of the Commonwealth’s Constitution (the “Constitution”) as approved by the people of Puerto Rico and the U.S. Congress. The Constitution provides for the separation of powers of the executive, legislative, and judicial branches of the government. The Commonwealth assumes responsibility for general government, public safety, health, public housing and welfare, education, and economic development.

The accompanying basic financial statements of the Commonwealth are presented in conformity with Generally Accepted Accounting Principles (GAAP) for governments in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

The accompanying basic financial statements present the financial position of the Commonwealth and its various funds, the results of operations of the Commonwealth and its various funds and fund types, and the cash flows of the proprietary funds. The basic financial statements are presented as of June 30, 2011 and for the year then ended. The basic financial statements include the various departments, agencies, boards, commissions, public trusts and public corporations, and any other organizational units governed by the Puerto Rico Legislature and/or officers of the Commonwealth.

(a) Financial Reporting Entity

The accompanying basic financial statements include all departments, agencies, and governmental entities whose funds are under the custody and control of the Secretary of the Treasury of the Commonwealth and the Commonwealth’s component units pursuant to Act No. 230 of July 23, 1974, as amended, known as Commonwealth of Puerto Rico Accounting Law. The Commonwealth has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Commonwealth are such that exclusion would cause the Commonwealth’s basic financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include: (i) appointing a voting majority of an organization’s governing body and the ability of the Commonwealth to impose its will on that organization or (ii) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Commonwealth.

As required by GAAP, these basic financial statements present the Commonwealth and its component units.

(b) Component Units

Component units are entities that are legally separate organizations for which the Commonwealth’s elected officials are financially accountable or other organizations for which the nature and significance of their relationship with the Commonwealth are such that exclusion would cause the Commonwealth’s basic financial statements to be misleading or incomplete. GAAP details two methods of presentation: (i) blending the financial data of the component units’ balances and

transactions in a manner similar to the presentation of the Commonwealth's balances and transactions; or (ii) discrete presentation of the component units' financial data in columns separate from the Commonwealth's balances and transactions. The Commonwealth is financially accountable because it appoints the members of the governing authorities of each of the component units and because it is able to impose its will on these organizations or because the organizations provide specific financial benefits or impose specific financial burdens on the Commonwealth. The financial statements of the component units discussed below have been included in the financial reporting entity either as blended component units or as discretely presented component units in accordance with GASB Statement No. 14, The Financial Reporting Entity, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

Blended Component Units — The following entities, while legally separate from the Commonwealth, meet the criteria to be reported as part of the primary government because they provide services entirely or almost entirely to the Commonwealth.

Public Buildings Authority (PBA) — PBA is governed by a seven member board comprised by the Secretary of the Department of Transportation and Public Works (DTPW), the Secretary of the Department of Education of the Commonwealth, the President of the Government Development Bank for Puerto Rico (GDB), and four members appointed by the Governor of Puerto Rico with the advice and consent of the Senate. It is a legally separate entity, whose activities are blended within the primary government because it exists to construct, purchase, or lease office, school, health, correctional, social welfare, and other facilities for lease to the Commonwealth's departments, component units, and instrumentalities. Bonds issued by PBA to finance such facilities are payable from lease collections, which are largely derived from Commonwealth appropriations and are further secured by the Commonwealth's guaranty.

Puerto Rico Maritime Shipping Authority (PRMSA) — PRMSA is governed by the President of GDB. The operations of PRMSA consist of servicing the long-term liability to third parties that resulted from the sale of certain maritime operations formerly owned and operated by PRMSA. The Commonwealth is required to annually appropriate funds in its general operating budget to provide for the payment of principal and interest on such debt.

Puerto Rico Sales Tax Financing Corporation (Known as" COFINA" by its Spanish Acronym) — COFINA was created under Act No. 91 of the Legislative Assembly of the Commonwealth, approved on May 13, 2006, as amended by Act No. 291, approved on December 26, 2006, Act No. 56, approved on July 6, 2007, Act No. 1, approved on January 14, 2009, Act No. 7, approved on March 9, 2009 ("Act 7"), and Act No. 18, approved on May 22, 2009 (collectively, "Act 91"). COFINA was originally created for the purpose of financing the payment, retirement or defeasance of certain debt obligations of the Commonwealth outstanding as June 30, 2006 (the "2006 Appropriation Debt"). The members of the board of directors of COFINA are the same as the ones of GDB.

During 2009, the Commonwealth's Legislative Assembly expanded the purposes of COFINA and increased COFINA's dedicated revenues from 1% to 2.75% (out of total sales tax of 5.5%) the portion of the Commonwealth sales tax transferred to COFINA. COFINA is authorized to pay or finance, in whole or in part, or fund, in addition to the 2006 Appropriation Debt: (i) the debt of the Secretary of the Treasury of the Commonwealth with GDB in the amount of $1 billion, a portion of the proceeds of which were used to cover the budgetary deficit of the Commonwealth for fiscal year 2009, (ii) certain financing granted to the Secretary of the Treasury by GDB payable from future Commonwealth general obligation bonds, and any debt of the Commonwealth outstanding as of December 31, 2008 that did not have a source of repayment or was payable from budgetary

appropriations (iii) a portion of the accounts payable to suppliers of the Commonwealth, (iv) operational expenses of the Commonwealth for fiscal years 2009, 2010, and 2011, (v) operational expenses of the Commonwealth for fiscal year 2012, to the extent included in the annual budget of the Commonwealth, (vi) the Puerto Rico Economic Stimulus Fund, (vii) the Commonwealth Emergency Fund in order to cover expenses resulting from catastrophic events such as hurricanes or floods, and (viii) the Economic Cooperation and Public Employees Alternatives Fund (all such uses, together with the 2006 Appropriation Debt, the "Authorized Uses").

The Children's Trust (the "Trust") — The Trust is governed by a seven member board comprised by the Governor, who designates the president of the board, the President of GDB, the Director of the Office of Management and Budget (OMB) of the Commonwealth, the Secretary of Justice of the Commonwealth, and three private citizens appointed by the Governor with the advice and consent of the Senate. The Trust's sole operation consists of providing financial assistance principally to the Commonwealth's departments to carry out projects aimed at promoting the well-being of families, children and youth of Puerto Rico, especially in the areas of education, recreation, and health. The operation of the Trust is financed with the moneys being received by the Commonwealth from a global settlement agreement (GSA) dated November 23, 1998 between certain tobacco companies and certain states, territories, and other jurisdictions of the United States of America, including the Commonwealth. The GSA calls for annual payments through the year 2025, which will vary due to inflationary and volume adjustments. After 2025, the tobacco companies shall continue making contributions in perpetuity.

The blended component units are composed of various funds. COFINA debt service fund and the special revenue fund are presented as major governmental funds. All other funds are reported in the other governmental funds column. Complete financial statements of the blended component units can be obtained directly by contacting their respective administrative offices at:

Public Buildings Authority
P.O. Box 41029 — Minillas Station
San Juan, PR 00940-1029

Puerto Rico Maritime
Shipping Authority
P.O. Box 42001
San Juan, PR 00940-2001

The Children's Trust
P.O. Box 42001
San Juan, PR 00940-2001

Puerto Rico Sales Tax Financing
Corporation
P.O. Box 42001
San Juan PR 00940-2001

Discretely Presented Component Units — The following component units, consistent with GASB Statement No. 14, as amended by GASB Statement No. 39, are discretely presented in the basic financial statements because of the nature of the services they provide, the Commonwealth's ability to impose its will, principally through the appointment of their governing authorities, and because the component units provide specific financial benefits to, or impose financial burdens on, the Commonwealth. These have been classified by management between major and nonmajor component units. A major discretely presented component unit is defined as a component unit that meets ten percent or more of total assets, liabilities, net assets, revenue or expenses of all discretely presented component units. If a component unit is expected to meet the minimum criteria for inclusion as major component unit in a future year, the Commonwealth may elect to report as a major component unit.

Major Component Units

Government Development Bank for Puerto Rico (GDB) — GDB is governed by a seven member board appointed by the Governor. GDB acts as fiscal agent, depository of funds, disbursing agent, investor and financial advisor for the Commonwealth, its public corporations, and municipalities in connection with the issuance of bonds and notes; and it also makes loans and advances funds predominantly to the Commonwealth's departments, component units, and municipalities. GDB's boards of directors' members are executives on a trustworthy position, named and supervised by the Governor.

Puerto Rico Aqueduct and Sewer Authority (PRASA) — PRASA is governed by a nine member board comprising five members appointed by the Governor with the advice and consent of the Senate, the Executive President of PREPA, the President of the Puerto Rico Planning Board, the Executive Director of Mayors' Federation, and the Executive Director of Mayors' Association. PRASA owns and operates the Commonwealth's system of public water supply and sanitary sewer facilities. PRASA is authorized, among other things, to borrow money and issue revenue bonds for any of its corporate purposes. The Commonwealth guarantees the principal and interest payments of certain outstanding bonds and of all future bonds issued to refinance those outstanding bonds at the date of refinancing. Act No. 45 of July 28, 1994 was later amended to include other loans under the State Revolving Fund Program (SRFP). The Commonwealth provides financial support to PRASA through legislative appropriations.

Puerto Rico Electric Power Authority (PREPA) — PREPA is governed by a nine member board comprising the Secretary of DTPW, and six members appointed by the Governor with the advice and consent of the Senate, and two members representing the consumers' interest elected in a referendum carried out by the Puerto Rico Consumer Affairs Department. Board members are appointed or elected for a period of four years. PREPA is responsible for conserving, developing, and utilizing the power resources in order to promote the general welfare of Puerto Rico and owns and operates the Commonwealth's electrical power generation, transmission, and distribution system. The Commonwealth provides financial support to PREPA through legislative appropriations.

Puerto Rico Health Insurance Administration (PRHIA) — PRHIA is governed by a Board of Directors, which, by law, is composed of nine members (four compulsory members and five discretionary members). The compulsory members are the Secretary of Health of the Commonwealth, the Secretary of the Treasury of the Commonwealth, the Insurance Commissioner of Puerto Rico, and the Administrator of the Administration of Services of Mental Health and Addiction. The five discretionary members are appointed by the Governor, with the advice and consent of the Senate. PRHIA was created for implementing, administering, and negotiating a health insurance system through contracts with insurance underwriters to provide quality medical and hospital care to low income individuals, employees of the Commonwealth and policemen who voluntarily subscribe to the Puerto Rico health insurance medical plan. The board of directors' president is designated by the Governor and all discretionary board members are executives on a trustworthy position. The Commonwealth provides financial support to PRHIA through legislative appropriations.

Puerto Rico Highways and Transportation Authority (PRHTA) — PRHTA is governed by the Secretary of DTPW. PRHTA has broad powers to carry out its responsibilities in accordance with DTPW's overall transportation policies. These powers include, among other things, the complete control and supervision of any highway facilities constructed, owned, or operated by PRHTA, the ability to set tolls for the use of the highway facilities, and the power to issue bonds, notes, or other

obligations. PRHTA plans and manages the construction of all major projects relating to the Commonwealth's toll highway system, undertakes major repairs, and maintains the toll ways. The Commonwealth has the ability to significantly influence the toll rates charged by PRHTA.

University of Puerto Rico (UPR) — UPR is governed by a seventeen member board of trustees comprising one full time student; two permanent professors, and fourteen citizens from the community sector, of which at least one must be graduated from the institution. Community members are designated by the Governor with the advice and consent of the Senate. Members designated by the Governor are appointed for a period of six years. The terms for the student and professors are one year. The Commonwealth provides financial support to UPR through legislative appropriations.

Nonmajor Component Units

Agricultural Enterprises Development Administration (AEDA) — AEDA is governed by the Secretary of Agriculture of the Commonwealth. The purpose of AEDA is to provide a wide variety of services and incentives to the agricultural sector. The Commonwealth has the ability to impose its will on AEDA. The Commonwealth provides financial support to AEDA through legislative appropriations.

Automobile Accidents Compensation Administration (AACA) — AACA is governed by a Cabinet Member, and a four member board appointed by the Governor with the advice and consent of the Senate. AACA operates a system of compulsory insurance coverage for all registered motor vehicles and compensates citizens for injuries arising from motor vehicle accidents. The Commonwealth has the ability to significantly influence rates charged by AACA.

Cardiovascular Center Corporation of Puerto Rico and the Caribbean (CCCPRC) — CCCPRC is governed by a seven member board comprising of the Secretary of Health of the Commonwealth, the Director of the Medical Sciences Campus of the UPR, the Executive Director of the Puerto Rico Medical Services Administration, and four additional members appointed by the Governor with the advice and consent of the Senate, one of which should be from the Cardiology Society of Puerto Rico and another a member of a cardiology foundation properly registered in the Department of State of the Commonwealth. The purpose of the CCCPRC is to provide special treatment to patients suffering from cardiovascular diseases. The Commonwealth provides financial support to CCCPRC through legislative appropriations.

Company for the Integral Development of the "Península de Cantera" (CIDPC) — CIDPC is governed by an eleven member board, of which six members are appointed by the Governor and five members appointed by the Mayor of the Municipality of San Juan. CIDPC was created to establish and implement a comprehensive development plan for the Península de Cantera area. Its main function is to supervise and coordinate governmental efforts and also promote and manage private sector initiatives for the improvements and rehabilitation of the aforementioned area.

Corporation for the "Caño Martín Peña" ENLACE Project (CPECMP) — CPECMP was created for the purpose of coordinate the public policy related to the rehabilitation of the Caño Martín Peña area. CPECMP is governed by a board of directors of thirteen members of which seven members are appointed by the Governor and six members appointed by the Mayor of the Municipality of San Juan.

Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico (CDASFIPR) — CDASFIPR was created for the development of the arts and the film industry in Puerto Rico and is governed by a seven member board comprising of the Secretary of Economic Development and Commerce, who is the president, the President of the Puerto Rico Public Broadcasting Corporation, the Secretary of Treasury, the Executive Director the Puerto Rico Institute of Culture and three additional members appointed by the Governor with the advice and consent of the Senate.

Culebra Conservation and Development Authority (CCDA) — CCDA was created to formulate and administer the program and plan for the conservation, use, and development of natural resources of the municipality of Culebra. CCDA is administered through a board of directors composed of seven members, including the Mayor the municipality of Culebra and six additional members appointed by the Mayor of the Municipality of Culebra and confirmed by the municipal legislature. The administration and operations of the CCDA are conducted by an executive director elected by the board of directors. The Commonwealth provides financial support to CCDA through legislative appropriations.

Economic Development Bank for Puerto Rico (EDB) — EDB is governed by a ten member board comprising the President of GDB, who is the Chairman, the Secretary of Agriculture of the Commonwealth, the Secretary of the Department of Economic Development and Commerce of the Commonwealth, the Executive Director of the Puerto Rico Industrial Development Company, the Executive Director of the Puerto Rico Tourism Company, and four members representing the private sector and appointed by the Governor with the advice and consent of the Senate. Private sector members are appointed for a maximum period of three years. EDB is responsible for the promotion and development of the private sector economy of the Commonwealth. This purpose is to be met by granting direct loans, loan guarantees, loan participation, and/or direct investments to any person or business organization devoted to manufacturing, agriculture, trade, tourism, or other service enterprises with preference, but not limited, to economic activities that may have the effect of substituting imports. The Commonwealth has the ability to impose its will on EDB.

Employment and Training Enterprises Corporation (ETEC) — ETEC is governed by an eleven member consulting board, which includes two private citizens appointed by the Governor with the consent of the Senate. The purpose of ETEC is to provide training for management, business development, and employment for inmates of the correctional institutions of the Commonwealth. The Commonwealth generally provides financial support to ETEC through legislative appropriations.

Farm Insurance Corporation of Puerto Rico (FICPR) — FICPR is governed by a five member board consisting of the Secretary of Agriculture of the Commonwealth, the Dean of the Agricultural Sciences Faculty of the UPR Mayaguez Campus, a representative of GDB, and two bona fide farmers appointed by the Governor with the advice and consent of the Senate. The purpose of the FICPR is to provide insurance to farmers against losses in their farms caused by natural disasters. The Commonwealth has the ability to impose its will on FICPR.

Fine Arts Center Corporation (FACC) — FACC is governed by a nine member board comprising the President of the Musical Arts Corporation and eight members named by the Governor. FACC was created with the purpose of administering the Fine Arts Center. The Commonwealth provides financial support to FACC through legislative appropriations.

Governing Board of the 9-1-1 Service (911 Service) — The 911 Service is governed by a five member board comprising the Chief of Police, the Executive Director of the Medical Emergency Services, the Director of the State Emergency Management Agency, the Chief of the Puerto Rico Firefighters Corps, and one member appointed by consensus of the four ex-officio members to represent the public interest. The 911 Service is responsible for providing an efficient service of fast response to emergency calls through the 911 number and transferring these to the appropriate response agencies using technological and human resources to safeguard lives and properties.

Institute of Puerto Rican Culture (IPRC) — IPRC is governed by a nine member board comprising the President of Musical Arts Corporation and eight members appointed by the Governor with the advice and consent of the Senate. The IPRC is responsible for implementing the public policy related to the development of Puerto Rican arts, humanities and culture. The Commonwealth provides financial support to IPRC through legislative appropriations.

Institutional Trust of the National Guard of Puerto Rico (ITNGPR) — ITNGPR is governed by a seven member board comprising of the Adjutant General of the Puerto Rico National Guard, the President of GDB, the Secretary of Justice of the Commonwealth, three militaries from the Puerto Rico National Guard, and one representative from the community appointed by the Governor. ITNGPR's purpose is to provide life insurance, retirement benefits, and economic assistance to the active members of the Puerto Rico National Guard and their families. The Commonwealth generally provides financial support to ITNGPR through legislative appropriations.

Land Authority of Puerto Rico (LAPR) — LAPR is governed by a five member board consisting of the Secretary of Agriculture of the Commonwealth and four members appointed by the Governor. LAPR was created to carry out the provisions of the Land Law of Puerto Rico. LAPR maintains debt that is paid with Commonwealth's appropriations and funds generated by LAPR operations.

Musical Arts Corporation (MAC) — MAC is governed by a seven member board appointed by the Governor with the advice and consent of the Senate. MAC was created to promote the development of the arts and cultural programs of the Commonwealth. The Commonwealth provides financial support to MAC through legislative appropriations.

National Parks Company of Puerto Rico (NPCPR) — NPCPR is governed by a nine member board comprising the Secretary of Recreation and Sports Department of the Commonwealth (the "Secretary"), who is the chairman, the Secretary of the Department of Education of the Commonwealth, the Executive Director of the Puerto Rico Tourism Company, the Secretary of the Department of Natural and Environmental Resources of the Commonwealth, and five members appointed by the Governor with the recommendation from the Secretary and with known interest in the development and preservation of parks in the private sector. NPCPR is responsible for the operation of all national parks and the protection, conservation, maintenance and use of parks, beaches, forests, and natural and historical monuments for the optimum enjoyment of present and future generations. The Commonwealth provides financial support to NPCPR through legislative appropriations.

Port of the Americas Authority (PAA) — PAA is governed by an eleven member board comprising of the Secretary of DTPW, the Secretary of Economic Development and Commerce, the Executive Director of Puerto Rico Industrial Development Company, the Majors of the Municipalities of Ponce, Peñuelas and Guayanilla and five private citizens appointed by the Governor with the consent of the Senate. The purpose of the PAA is to provide an alternative to container transshipment port in the south of Puerto Rico.

Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives (PCSDIPRC) — PCSDIPRC is governed by a nine member board comprising of the Administrator of the Cooperative Development Administration, the Commissioner of Financial Institutions of Puerto Rico, the Secretary of the Treasury of the Commonwealth, the Inspector of Cooperatives, three citizens representing the cooperative movement, one representative of the Puerto Rico Cooperatives League, and one private citizen representing the public interest. PCSDIPRC has the responsibility of providing to all the cooperatives and the Federation of Cooperatives of Puerto Rico insurance coverage over the stocks and deposits, and for monitoring the financial condition of the insured cooperatives, and the uninsured cooperatives when requested by the Inspector of Cooperatives. The Commonwealth has the ability to impose its will on PCSDIPRC.

Puerto Rico Conservatory of Music Corporation (PRCMC) — PRCMC is governed by a seven member board appointed by the Governor, with the advice and consent of the Senate. PRCMC is responsible for providing the Puerto Rican community and especially its youths with the required facilities to educate and perfect their musical skills, including secondary education programs for developing musical arts. It prepares the artistic element that nourishes the Puerto Rico Symphony Orchestra and other musical organizations, and coordinates the governmental efforts to interested industries, private enterprises, and particular citizens. The Commonwealth provides financial support to PRCMC through legislative appropriations.

Puerto Rico Convention Center District Authority (PRCCDA) — PRCCDA is governed by a nine member board of directors comprising of four members from the public sector and five members from the private sector. The public sector members comprise the Secretary of Economic Development and Commerce of the Commonwealth, who is the Chairman, the Executive Director of the Puerto Rico Tourism Company (PRTC), the president of GDB, and one member from the public sector. The private sector members are individuals having experience in the areas of hotel operations, tourism, real estate, or convention centers who are appointed by the Governor with the advice and consent of the Senate. PRCCDA was created to develop, own, finance, plan, design, construct, operate, manage, and promote the new Puerto Rico Convention Center and the Puerto Rico Convention District. The PRCCDA also has the ownership interest as well as other rights and obligations related to the development and operations of the Jose Miguel Agrelot Coliseum. The Commonwealth provides financial support to PRCCDA through legislative appropriations.

Puerto Rico Council on Higher Education (PRCHE) — PRCHE is governed by a board comprising eight members appointed by the Governor with the consent of the Senate and the Secretary of Education of the Commonwealth as an ex-officio member. Its purpose is to develop higher education, to administer the licensing and certification of institutions of higher education, and to administer scholarship funds. The Commonwealth provides financial support to PRCHE through legislative appropriations.

Puerto Rico Government Investment Trust Fund (PRGITF) — PRGITF is governed by the Secretary of the Treasury of the Commonwealth. GDB is its trustee, custodian, and administrator. PRGITF's main objective is to provide investment opportunities in a professionally managed money market portfolio by investing in high quality securities with minimal credit risk. Qualified investors include the Commonwealth's central government, its public corporations, instrumentalities and agencies, and the municipalities of Puerto Rico. In conformity with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investments Pools, the financial statements of the PRGITF are not included in the accompanying basic financial statements because the primary government and each component unit investor is already presenting as cash or investment their corresponding share of the assets of the PRGITF.

Puerto Rico Industrial Development Company (PRIDCO) — PRIDCO is governed by a seven member board comprising the Secretary of Economic Development and Commerce of the Commonwealth, who is the Chairman, the Secretary of the Treasury of the Commonwealth, the President of GDB, the President of the Planning Board of Puerto Rico, and three members from the private sector appointed by the Governor with the advice and consent of the Senate. The private sector members are appointed for a period of four years. PRIDCO administers the Commonwealth sponsored economic development program by providing facilities, general assistance, and special incentive grants to manufacturing companies operating in Puerto Rico. PRIDCO has issued interim notes and revenue bonds to finance manufacturing plants and other facilities. Rentals derived from the leasing of specified facilities of PRIDCO are pledged for the payment of PRIDCO's revenue bonds. PRIDCO maintains debt that is paid with Commonwealth's appropriations. The Commonwealth provides financial support to PRIDCO through legislative appropriations.

Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority (known as AFICA by its Spanish acronym) — AFICA is governed by a seven member board comprising of the Executive Director of PRIDCO, the President of GDB, the Executive Director of PRIFA, the Executive Director of the Puerto Rico Tourism Company (the "PRTC"), the President of the Environmental Quality Board, and two private citizens appointed by the Governor. AFICA is authorized to issue revenue bonds to finance industrial, tourist, environmental control, medical, and educational facilities in Puerto Rico and the United States of America for use by private companies, nonprofit entities, or governmental agencies. The bonds are payable solely from collections from such private companies, nonprofit entities, or governmental agencies, and do not constitute debt of the Commonwealth or any of its other component units.

Puerto Rico Infrastructure Financing Authority (PRIFA) — PRIFA is governed by a seven member board comprising of five members appointed the board of the directors of GDB, the Secretary of the Treasury of the Commonwealth and one member appointed by the Governor. The President is appointed by the Governor from among its members. Its responsibilities are to provide financial, administrative, consulting, technical, advisory, and other types of assistance to other component units and governmental instrumentalities of the Commonwealth, which are authorized to develop infrastructure facilities and to establish alternate means for financing them. PRIFA's boards of directors' members are executives on a trustworthy position, named and supervised by the Governor. The Commonwealth provides financial support to PRIFA through legislative appropriations.

Puerto Rico Land Administration (PRLA) — PRLA is governed by an eleven member board comprising the Secretary of Economic Development and Commerce of the Commonwealth, who serves as President, the President of the Planning Board of Puerto Rico, who serves as Vice-President, the Secretary of the Treasury of the Commonwealth, the Secretary of Agriculture of the Commonwealth, the Secretary of DTPW of the Commonwealth, the Secretary of Housing of the Commonwealth, the Executive Director of Puerto Rico Industrial Development Corporation and four members appointed by the Governor with the advice and consent of the Senate. PRLA acquires parcels of land on behalf of government instrumentalities through negotiation or expropriation for future development or for reserve. The Commonwealth provides financial support to the PRLA through legislative appropriations.

Puerto Rico and Municipal Islands Maritime Transport Authority (PRMIMTA) — PRMIMTA is governed by a five member board comprising the Secretary of DTPW, who serves as President, the Executive Director of the Ports Authority, the Mayors of Vieques and Culebra, and one additional member appointed by the Governor. The operations of PRMIMTA consist of administer and operate the maritime transportation services between San Juan, Fajardo, Vieques and Culebra. The Commonwealth provides financial support to PRMIMTA through legislative appropriations.

Puerto Rico Medical Services Administration (PRMeSA) — PRMeSA is governed by a ten member board comprising the Secretary of the Department of Health of the Commonwealth, who is the Chairman, the Dean of the Medical Sciences Faculty of the UPR, the President of the Board of the Puerto Rican Cancer Society, the Mayor of the Municipality of San Juan, the Administrator of the State Insurance Fund Corporation, the Administrator of the Administration of Mental Health and Anti — Addiction Services, the President of the Medical Policy and Administration Committee, the Secretary of the Department of Family, and two members appointed by the Secretary of the Department of Health of the Commonwealth. Its purpose is to plan, organize, operate, and administer the centralized health services, provided in support of the hospital and other functions, offered by the member institutions and users of the medical complex known as the Puerto Rico Medical Center. The Commonwealth provides financial support to PRMeSA through legislative appropriations.

Puerto Rico Metropolitan Bus Authority (PRMBA) — PRMBA is governed by the Secretary of DTPW of the Commonwealth. PRMBA provides bus transportation to passengers within the San Juan Metropolitan Area. The Commonwealth provides financial support to PRMBA through legislative appropriations.

Puerto Rico Municipal Finance Agency (PRMFA) — PRMFA is governed by a five member board comprising the President of GDB, who is the Chairman, the Commissioner of Municipal Affairs, and three additional members appointed by the Governor, one of whom shall be either the mayor or chief financial officer of a municipality. PRMFA was organized to create a capital market to assist the municipalities of Puerto Rico in financing their public improvement programs.

Puerto Rico Ports Authority (PRPA) — PRPA is governed by a five member board consisting of the Secretary of DTPW of the Commonwealth, who is the Chairman, the Secretary of Economic Development and Commerce of the Commonwealth, the Executive Director of the PRTC, the Executive Director of Puerto Rico Industrial Development Company and one private citizen appointed by the Governor with the consent of the Senate. The purpose of PRPA is to administer all ports and aviation transportation facilities of the Commonwealth and to render other related services. The Commonwealth generally provides financial support to PRPA through legislative appropriations.

Puerto Rico Public Broadcasting Corporation (PRPBC) — PRPBC is governed by an eleven member board of directors comprising the Secretary of the Department of Education of the Commonwealth, the President of the UPR, the Executive Director of IPRC, and eight private citizens appointed by the Governor with the advice and consent of the Senate. At least three of these private citizens must have proven interest, knowledge, and experience in education, culture, art, science, or radio and television. PRPBC was created for the purpose of integrating, developing, and operating the radio, television, and electronic communication facilities that belong to the Commonwealth. The Commonwealth provides financial support to PRPBC through legislative appropriations.

Puerto Rico Public Private Partnerships Authority (PPPA) — PPPA is governed by a five member board of directors comprising the President of GDB, the Secretary of the Treasury, the President of the Planning Board and two members appointed by the Governor, one member selected by the President of the Senate of Puerto Rico and another member, by the Speaker of the Puerto Rico House of Representatives. PPPA is the only government entity authorized and responsible for implementing public policy on Public Private Partnerships established by Act No. 29 of June 8, 2009 and to determine the functions, services or facilities for which such Partnerships will be established.

Puerto Rico School of Plastic Arts (PRSPA) — PRSPA is governed by a seven member board. Four members are appointed by the board of directors of IPRC, representing the public educational and cultural interests. Board members may not be employees of the PRSPA. The remaining three members are elected from among the members of the board of directors of IPRC, one of whom will serve as president. PRSPA was created to develop, promote, plan, and coordinate programs of study in higher education oriented to the plastic arts, teaching, artistic techniques, and to help students to develop humanistic values. The Commonwealth generally provides financial support to PRSPA through legislative appropriations.

Puerto Rico Telephone Authority (PRTA) — PRTA is governed by a five member board comprising the President of GDB and four members that are appointed by the board of directors of GDB. PRTA is the legal entity responsible to account for the equity interest in Telecommunications de Puerto Rico, Inc., for the benefit of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS). The Commonwealth generally provides financial support to PRTA through legislative appropriations.

Puerto Rico Tourism Company (PRTC) — PRTC is governed by a seven member board comprising of representatives of different tourist related sectors appointed by the Governor with the consent of the Senate. At least one member must represent internal tourism and two must not be residents of the metropolitan area. Its purpose is to promote the tourism industry of Puerto Rico. The Commonwealth generally provides financial support to PRTC through legislative appropriations.

Puerto Rico Trade and Export Company (PRTEC) — PRTEC is governed by a nine member board comprising the Secretary of the Department of Economic Development and Commerce, who is the Chairman, the Executive Director of the Ports Authority, the Secretary of the Department of Agriculture, the President of EDB, the Executive Director of PRIDCO, the Legal Division Director of PRTEC, and three private citizens. PRTEC has the responsibility to promote the highest efficiency in the services provided to the commercial sector, with emphasis on small and medium sized enterprises while promoting the export of products and services from Puerto Rico to other countries. The Commonwealth provides financial support to PRTEC through legislative appropriations.

Right to Employment Administration (REA) — REA is governed by an administrator appointed by the Governor with the consent of the Senate. The Commonwealth provides financial support to REA through legislative appropriations and federal funds.

Solid Waste Authority (SWA) — SWA is governed by a government board appointed by the Secretary of the Department of Natural Resources, whereby, the Secretary and the Executive Director of SWA periodically meet. SWA provides alternatives for processing of solid waste and encourages recycling, reuse, and recovery of resources from waste. The Commonwealth provides financial support to SWA through legislative appropriations.

Special Communities Perpetual Trust (SCPT) — SCPT is governed by a board of directors composed of eleven members: the Secretary of the Department of Housing of the Commonwealth, the Secretary of the DTPW of the Commonwealth, the Coordinator for the Social and Economic Financing of the Special Communities, one mayor of a municipality of Puerto Rico, one community leader resident in one special community, four private citizens representing the public interest, and two public employees. All members of the board of directors are appointed by the Governor. SCPT's principal purpose is to fund development projects that address the infrastructure and housing needs of the underprivileged communities. The Commonwealth provides financial support to SCPT through legislative appropriations.

State Insurance Fund Corporation (SIFC) — SIFC is governed by a seven member board appointed by the Governor with the advice and consent of the Senate. The board comprises the Commissioner of Insurance of Puerto Rico, an officer from the Department of Labor and Human Resources of the Commonwealth, an officer from the Department of Health of the Commonwealth, a representative of the employers' interest, a representative of the employees' interest, and two members without any of these interests. One of these members is appointed by the Governor as president of the board for a period of six years. The three public officials are appointed for a period of five years, and the rest of the members for four, three, two, and one year, respectively. SIFC provides workers' compensation and disability insurance to public and private employees. The Commonwealth has access to SIFC's resources.

University of Puerto Rico Comprehensive Cancer Center (UPRCCC) — UPRCCC is governed by an eleven member board comprising of five ex-officio members: the President of the University of Puerto Rico (the UPR), the Chancellor of Medical Sciences Campus of the UPR, the Secretary of the Department of Health of the Commonwealth, the Dean of the UPR School of Medicine and the Director of the Office of Management and Budget of the Commonwealth. The remaining six (6) members are as follows: one member who is a representative of the medical faculty of the Medical Science Campus, appointed by the President of the University; one member who is a cancer research specialist of the Medical Science Campus of the University, appointed by the President of the University; one member who is a cancer patient residing in Puerto Rico, appointed by the President of the University; and three citizens of Puerto Rico who have shown commitment to the fight against cancer, one of which will be a member of the "Liga Puertorriqueña Contra el Cancer", appointed by the Governor.

Complete financial statements of the discretely presented component units can be obtained directly by contacting their administrative offices:

Government Development Bank for Puerto Rico
P.O. Box 42001
San Juan, PR 00940–2001

Puerto Rico Electric Power Authority
P.O. Box 364267
San Juan, PR 00936-4267

Puerto Rico Highways and Transportation Authority
P.O. Box 42007
San Juan, PR 00940-2007

Puerto Rico Aqueduct and Sewer Authority
P.O. Box 7066
San Juan, PR 00916-7066

Puerto Rico Health Insurance Administration
P.O. Box 195661
San Juan PR 00919-5661

University of Puerto Rico
P.O. Box 23400
San Juan, PR 00931-3400

Agricultural Enterprises and Development Administration
P.O. Box 10163
Santurce, PR 00909

Automobile Accidents Compensations Administration
P.O. Box 364847
San Juan, PR 00936-4847

Cardiovascular Center Corporation of Puerto Rico and the Caribbean
P.O. Box 366528
San Juan, PR 00936-6528

Company for the Integral Development of the "Península de Cantera"
P.O. Box 7187
Santurce, PR 00916-7187

Corporation for the "Caño Martín Peña" ENLACE Project
P.O. Box 41308
San Juan, PR 00940-1308

Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico
P.O. Box 362350
Hato Rey, PR 00936-2350

Culebra Conservation and Development Authority
P.O. Box 217
Culebra, PR 00775-0217

Economic Development Bank for Puerto Rico
P.O. Box 2134
San Juan, PR 00922-2134

Employment and Training Enterprises Corporation
P.O. Box 366505
San Juan, PR 00936-6505

Farm Insurance Corporation of Puerto Rico
P.O. Box 9200
Santurce, PR 00908

Fine Arts Center Corporation
P.O. Box 41287 - Minillas Station
San Juan, PR 00940-1287

Governing Board of the 9-1-1 Service
P.O. Box 270200
San Juan, PR 00927-0200

Institute of Puerto Rican Culture
P.O. Box 9024184
San Juan, PR 00902-4184

Institutional Trust of the National Guard of Puerto Rico
P.O. Box 9023786
San Juan, PR 00902-3786

Land Authority of Puerto Rico
P.O. Box 9745
Santurce, PR 00908-9745

Musical Arts Corporation
P.O. Box 41227
San Juan, PR 00940-1227

National Parks Company of Puerto Rico
P.O. Box 9022089
San Juan, PR 00902-2089

Port of the Americas Authority
P.O. Box 195534
San Juan, PR 00919-5534

Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives
P.O. Box 195449
San Juan, PR 00919-5449

Puerto Rico Conservatory of Music Corporation
951 Ave. Ponce de León
San Juan, PR 00907-3373

Puerto Rico Convention Center District Authority
P.O. Box 19269
San Juan, PR 00907

Puerto Rico Council on Higher Education
P.O. Box 19900
San Juan, PR 00910-1900

Puerto Rico Government Investment Trust Fund
P.O. Box 42001 - Minillas Station
San Juan, PR 00940-2001

Puerto Rico Industrial Development Company
P.O. Box 362350
San Juan, PR 00940

Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority
P.O. Box 42001
San Juan, PR 00940-2001

Puerto Rico Infrastructure Financing Authority
P.O. Box 41207 – Minillas Station
San Juan, PR 00940

Puerto Rico Land Administration
P.O. Box 363767
San Juan, PR 00936-3767

Puerto Rico and Municipal Islands Maritime Transport Authority
P.O. Box 4305
Puerto Real, PR 00740

Puerto Rico Medical Services Administration
P.O. Box 2129
San Juan, PR 00922-2129

Puerto Rico Metropolitan Bus Authority
P.O. Box 195349
San Juan, PR 00919-5349

Puerto Rico Municipal Finance Agency
P.O. Box 42001
San Juan, PR 00940-2001

Puerto Rico Ports Authority
P.O. Box 362829
San Juan, PR 00936-2829

Puerto Rico Public Broadcasting Corporation
P.O. Box 190909
San Juan, PR 00919-0909

Puerto Rico Public Private Partnership Authority
P.O. Box 42001
San Juan, PR 00940-2001

Puerto Rico School of Plastic Arts
P.O. Box 9021112
San Juan, PR 00902-1112

Solid Waste Authority
P.O. Box 40285 - Minillas Station
San Juan, PR 00940-0285

Puerto Rico Telephone Authority
P.O. Box 42001
San Juan, PR 00940-2001

Puerto Rico Tourism Company
P.O. Box 9023960
Old San Juan Station
San Juan, PR 00902-3960

Puerto Rico Trade and Export Company
P.O. Box 195009
San Juan, PR 00919-5009

Right to Employment Administration
P.O. Box 364452
San Juan, PR 00936-4452

Special Communities Perpetual Trust
P.O. Box 42001
San Juan, PR 00940-2001

State Insurance Fund Corporation
P.O. Box 365028
San Juan, PR 00936-5028

University of Puerto Rico Comprehensive Cancer Center
P.O. Box 23400
San Juan, PR 00931-3400

The financial statements of the discretely presented component units have a year end of June 30, 2011, except for the Puerto Rico Telephone Authority, which has a year end of December 31, 2010.

Fiduciary Component Units — The three employee retirement systems administer pension funds for the Commonwealth and its political subdivisions. The three systems are subject to legislative and executive controls, and the administrative expenses are subject to legislative budget controls. These component units, while meeting the definition of a component unit and are legally separate, are presented in the fund financial statements along with other fiduciary funds of the Commonwealth. They have been omitted from the government wide financial statements, as their resources are not available to fund operations of the Commonwealth. The three systems, as governmental retirement plans, are excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) — ERS is governed by a board of trustees, which is composed of the Secretary of the Treasury of the Commonwealth, who is the President, the President of GDB, the Commissioner for Municipal Affairs, the Director of the Puerto Rico Central Office of Personnel Administration, two participating employees, and one retiree, who are appointed by the Governor. The Commonwealth reports ERS as a cost sharing multiple employer pension plan. ERS is the administrator of a multiple employer defined benefit pension plan, which covers all regular employees of the Commonwealth and its instrumentalities and of certain municipalities and component units not covered by their own retirement systems. On September 24, 1999, an amendment to the law that created ERS was enacted with the purpose of establishing a new defined contribution plan (System 2000) for employees hired by the government on or after January 1, 2000.

Puerto Rico Judiciary Retirement System (JRS) — JRS is governed by the same board of trustees as ERS. JRS is a single employer defined benefit plan, administered by ERS, which covers all active judges or retired judges of the judiciary branch of the Commonwealth.

Puerto Rico System of Annuities and Pensions for Teachers (TRS) — TRS is governed by a nine member board comprising three ex-officio members, which are the Secretary of the Department of Education, the Secretary of the Treasury of the Commonwealth, the President of GDB, and one member who is a representative of a teachers' organization designated by the Governor; three teachers appointed by the Governor, one of which represents currently certified teachers in active service, and two who represent retired teachers; one member who is a representative of the entity that represents the proper unit under Act No. 45 of February 25, 1998, as amended; and one additional member, as representative of the public interest, with knowledge of and experience in the administration and operation of financial systems, appointed by the Governor. The Commonwealth reports TRS as a single employer pension plan. TRS provides retirement benefits to all teachers of the Department of Education of the Commonwealth, all pensioned teachers, all teachers transferred to an administrative position in the Department of Education of the Commonwealth, teachers who work in the Teachers' Association of Puerto Rico, and those who practice in private institutions accredited by the Department of Education of the Commonwealth. TRS provides retirement, death, and disability benefits.

Complete financial statements of these component units can be obtained directly by contacting their respective administrative offices at:

Employees' Retirement System of the
Government of the Commonwealth of Puerto Rico
P.O. Box 42003 - Minillas Station
Santurce, PR 00940

Puerto Rico Judiciary
Retirement System
P.O. Box 42003 - Minillas Station
Santurce, PR 00940

Puerto Rico System of Annuities and Pensions for
Teachers
P.O. Box 191879
San Juan, PR 00919-1879

(c) Government Wide Financial Statements

The government wide financial statements (the statement of net assets and the statement of activities) report information of all of the nonfiduciary activities of the Commonwealth and its component units. For the most part, the effect of interfund activity has been removed from these government wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable. The statement of net assets presents the reporting entities' nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in Capital Assets, Net of Related Debt — These consist of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances of bonds, notes, and other debt that is attributed to the acquisition, construction, or improvement of those assets.

Restricted Net Assets — These result when constraints placed on the net assets' use are either externally imposed by creditors, grantors, contributors, and the like or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets — These consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

When both restricted and unrestricted resources are available for use, generally, it is the Commonwealth's policy to use restricted resources first, then the unrestricted resources as they are needed.

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment, or component unit are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Program revenue includes charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, segment, or component unit. Program revenue also includes grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Taxes and other items not properly included

among program revenue are reported instead as general revenue. Resources that are dedicated internally are reported as general revenue rather than as program revenue. The Commonwealth does not allocate general government (indirect) expenses to other functions.

(d) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government Wide Financial Statements — The government wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenues from property tax are recognized in the fiscal year for which the taxes are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental Fund Financial Statements — The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. Principal revenue sources considered susceptible to accrual include tax revenue, net of estimated overpayments (refunds) and amounts considered not collectible, which are recorded as taxpayers earn income (income taxes), as sales are made (consumption, sales and use taxes) and as cash is received (miscellaneous taxes). For this purpose, the Commonwealth considers income tax revenue to be available if collected within 120 days after the end of the current fiscal year end, property tax revenue if collected within 90 days after the end of the current fiscal year, and consumption sales and use tax if collected within 30 days after the end of the current fiscal year. In applying the susceptible to accrual concept to federal grants, there are essentially two types of revenue. For the majority of grants, moneys must be expended by the Commonwealth on the specific purpose or project before any amounts will be reimbursed. Revenue is, therefore, recognized as expenditures are incurred to the extent available. For the other revenue, moneys are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenue at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include the following:

- Employees' vested annual vacation and sick leave are recorded as expenditures when utilized. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2011 has been reported only in the government wide financial statements.

- Interest and principal on general long-term obligations and interest on interest rate swap agreements are recorded when due, except for interest and principal due on July 1 of the following fiscal year, if resources are available for its payment as of June 30.

- Debt service expenditures, federal funds' cost disallowances, other long-term obligations, and amounts subject to judgments under litigation are recorded only when payment is due.

Proprietary Funds, Fiduciary Funds, and Discretely Presented Component Units Financial Statements — The financial statements of the proprietary funds, fiduciary funds, and discretely presented component units are reported using the economic measurement focus and the accrual basis of accounting, similar to the government wide financial statements described above.

Each enterprise fund has the option under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to elect and apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless these conflict with a GASB pronouncement. The primary government's major enterprise funds have elected not to apply FASB pronouncements issued after November 30, 1989 and two nonmajor enterprise funds elected to adopt the FASB's pronouncements issued after November 30, 1989. Also, certain discretely presented component units have disclosed their election in their separately issued financial statements. The component units follow GAAP as issued by GASB and FASB as applicable to each component unit based on the nature of their operations. In addition, the Puerto Rico Government Investment Trust Fund adopted GASB Statement No. 31; *Accounting and Financial Reporting for Certain Investments and for External Investments Pools*; however, such financial statements are not included in the accompanying basic financial statements because the primary government and each component unit's investor already present their corresponding share of the assets of the PRGITF as cash or investments.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses. The major operating revenue of the Commonwealth enterprise funds is as follows:

Unemployment Insurance Fund — Amounts requisitioned for the Puerto Rico Unemployment Insurance Trust Fund held by the U.S. Treasury for payment of unemployment benefits and charges made to individual employers.

Lotteries Fund — Amounts collected from the sale of traditional lottery tickets and electronic lotto games.

(e) Fund Accounting

The Commonwealth reports its financial position and results of operations in funds, which are considered separate accounting entities, and discrete presentations of those component units, which are not required to be blended. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions. Major funds are determined using a predefined percentage of the assets, liabilities, revenue, or expenditures/expenses of either the fund category or the governmental and enterprise funds combined. The nonmajor funds are combined in a single column in the fund financial statements. The Commonwealth reports the following major funds:

Governmental Funds

General Fund — The general fund is the primary operating fund of the Commonwealth. It is used to account for and report all financial resources received and used for those services traditionally provided by a government, except those required to be accounted for and reported in another fund. Included are transactions for services such as general government, public safety, health, public housing and welfare, and education.

Pledged Sales and Use Tax Fund — The pledge sales and use tax fund in used to account for and report the sales tax revenue and the corresponding transfer to COFINA debt service fund for the payment of debt.

Debt Service Fund — The debt service fund accounts for and reports financial resources that are restricted, committed or assigned to expenditure for general long-term bonds' principal, interest, and related costs other than bonds payable from the operations of proprietary fund types, pension trust funds, and discretely presented component units. Long-term debt and interest due on July 1 of the following fiscal year are accounted for as a fund liability if resources are available as of June 30 for its payment.

COFINA Special Revenue Fund — The special revenue fund of the Puerto Rico Sales Tax Financing Corporation (COFINA) is used to account for and report all financial resources of COFINA, except those required to be accounted for and reported in another fund.

COFINA Debt Service Fund — The debt service fund of the Puerto Rico Sales Tax Financing Corporation is used to account for the Commonwealth Sales Tax deposited in the Dedicated Sales Tax Fund for the payment of interest and principal on long-term obligations.

Nonmajor Governmental Funds — The Commonwealth reports the following blended component units within the nonmajor governmental funds: Public Buildings Authority, The Children's Trust, and the Puerto Rico Maritime Shipping Authority. If a component unit is blended, the governmental fund types of the component unit should be blended with those of the primary government by including them in the appropriate combining statements of the primary government. Although the primary government's General Fund is usually the main operating fund of the reporting entity, the General Fund of a blended component unit should be reported as a Special Revenue Fund. Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital Projects Fund — This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Major Proprietary Funds

These funds account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to the general public.

Unemployment Insurance Fund — This fund accounts for amounts requisitioned for the Puerto Rico Unemployment Insurance Trust Fund held by the U.S. Treasury for payment of unemployment benefits and charges made to individual employers.

Lotteries Fund — This fund accounts for the assets and operations of two lottery systems administered by the Commonwealth.

Nonmajor Proprietary Funds — The Commonwealth reports the following nonmajor proprietary funds: Disability Insurance, Drivers' Insurance, Puerto Rico Water Pollution Control Revolving Fund, and Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund.

Fiduciary Funds

Fiduciary funds are used to account for assets held by the Commonwealth in a trustee capacity, or as an agent for individuals, private organizations, and other governmental units. The following are the Commonwealth's fiduciary funds:

Pension Trust Funds — These are used to account for the assets, liabilities, and net assets available for pension benefits held in trust for the public employees' retirement systems.

Agency Funds — These are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations.

Discretely Presented Component Units

Discrete presentation of component units is used to present the financial information of entities that do not qualify to be blended, in accordance with GASB Statement No. 14, as amended by GASB Statement No. 39, with the funds of the primary government. The component units' column in the government wide financial statements is used to report the financial activities of the Commonwealth's discretely presented component units. The financial statements of these component units are presented following the accrual basis of accounting. Under the accrual basis, revenue is recognized when earned and expenses are recorded at the time liabilities are incurred, without regard to receipt or payment of cash.

(f) Reconciliation of Government-wide and Fund Financial Statements

A summary reconciliation of the difference between total fund balances (deficit) as reflected on the governmental funds balance sheet and total net assets (deficit) of governmental activities as shown on the government-wide statement of net assets is presented in an accompanying schedule to the governmental funds balance sheet. The asset and liability elements which comprise the difference are related to the governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting.

A summary reconciliation of the difference between net change in fund balances (deficit) as reflected on the governmental funds statement of revenues, expenditure, and changes in fund balances (deficit) and change in net assets (deficit) of governmental activities as shown on the governmental-wide statement of activities is presented in an accompanying schedule to the governmental funds statement of revenues, expenditures, and changes in fund balances (deficit). The revenue and expense elements which comprise the reconciliation difference stem from governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting.

(g) Statutory (Budgetary) Accounting

The Commonwealth's budget is adopted in accordance with a statutory basis of accounting, which is not in accordance with GAAP. Revenue is generally recognized when cash is received, net of tax refunds claimed by taxpayers as of year-end. Short term and long-term borrowings may be used to finance budgetary excess of expenditures over revenue. Expenditures are generally recorded when the related expenditure is incurred or encumbered. Encumbrances generally lapse the year following the end of the fiscal year when the encumbrance was established, as established by Act

No. 123 of August 17, 2001. Unencumbered appropriations lapse at year-end. Amounts required for settling claims and judgments against the Commonwealth and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment.

Under the statutory basis of accounting, the Commonwealth uses encumbrance accounting to record the full amount of purchase orders, contracts, and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control.

The statement of revenue and expenditures — budget and actual — budget basis — general fund only presents the information for the general fund for which there is a legally adopted budget, as required by GAAP. See Note 3(b) for a reconciliation of the statement of revenue and expenditures — budget and actual — budget basis — general fund with the statement of revenues, expenditures, and changes in fund balance (deficit) for the general fund. The special revenue funds do not have a legally mandated budget.

(h) Cash and Short Term Investments

The Commonwealth follows the practice of pooling cash. The balance in the pooled cash accounts is available to meet current operating requirements, and any excess is invested in various interest bearing accounts with the Government Development Bank for Puerto Rico and with the Puerto Rico Government Investment Trust Fund (PRGITF). Cash and cash equivalents include investments with original maturities of 90 days or less from the date of acquisition.

The Commissioner of Financial Institutions requires that private financial institutions deposit collateral securities to secure the deposits of the Commonwealth and all other governmental entities in each of these institutions. The amount of collateral securities to be pledged for the security of public deposits shall be established by the rules and regulations promulgate by the Commissioner of Financial Institutions.

The Puerto Rico Unemployment Insurance Trust Fund is maintained to account for the collection of unemployment insurance contributions from employers and the payment of unemployment benefits to eligible claimants. As required by federal law, all resources not necessary for current benefit payments are placed on deposit with the U.S. Treasury. Interest earned over such deposit is retained in the fund.

Cash and short term investments and cash equivalents of the component units are maintained in separate bank accounts, from those of the primary government, in their own names.

(i) Securities Purchased under Agreements to Resell

Certain component units of the Commonwealth enter into purchases of securities with simultaneous agreements to resell the same securities (“repurchase agreements”). The amounts advanced under these agreements generally represent short–term loans and are reflected as an asset. The securities underlying these agreements mainly consist of U.S. government obligations, mortgage-backed securities, and interest bearing deposits with other banks. Repurchase agreements are authorized transactions under their respective enabling legislation and/or authorized by GDB.

(j) Securities Lending Transactions

Certain component units of the Commonwealth enter into securities lending transactions in which governmental entities (lenders) transfer their securities to broker dealers and other entities (borrowers) for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Cash received as collateral on securities lending transactions and investments made with that cash are reflected as investments. Securities received as collateral are reported as investments if the component unit has the ability to pledge or sell them without a borrower default. Liabilities resulting from these securities lending transactions also are reported in the statement of net assets. Securities lending transactions collateralized by letters of credit or by securities that the component unit does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities in the statement of net assets.

(k) Investments and Investment Contracts

Investments and investment contract mainly include U.S. government and agencies' obligations, mortgage-backed securities, repurchase agreements, commercial paper, local government obligations, investment contracts, and corporate debt and equity obligations. Investments and investment contracts, are carried at fair value, except for money market investments and participating investment contracts with a remaining maturity at the time of purchase of one year or less and nonparticipating investment contracts (guaranteed investment contracts), which are carried at cost; and investment positions in 2a-7 like external investment pools, which are carried at the pool's share price. Fair value is determined based on quoted market prices and quotations received from independent broker/dealers or pricing service organizations. Investment income, including changes in the fair value of investments, is presented as investment earnings in the statement of activities, the statement of revenues, expenditures, and changes in fund balances (deficit) — governmental funds, and the statement of revenues, expenses, and changes in fund net assets (deficit) — proprietary funds. Realized gains and losses from the sale of investments and unrealized changes in the fair value of outstanding investments are included in the change in the fair value of investments.

The PRGITF is considered a 2a7 like external investment pool and, as such, reports its investments at amortized cost.

(l) Receivables

Tax receivables in the general fund include predominantly amounts owed by taxpayers for individual and corporate income taxes, net of estimated uncollectible amounts. Income tax receivables are recognized as revenue when they become measurable and available based on actual collections during the 120 days following the fiscal year end related to tax returns due before year end. Taxes receivables also include amounts owed by taxpayers on income earned in periods prior to June 30, 2011, estimated to be collectible but not currently available, and thus are reported as deferred revenue in the general fund. Unemployment, disability, and driver's insurance receivables in the enterprise funds are stated net of estimated allowances for uncollectible accounts.

The sales and use tax receivable is recognized as revenue when it becomes measurable and available based on actual collections during the 30 days following the fiscal year-end related to sales and use tax returns due before year-end.

Excise tax receivable is recognized as revenue when it becomes measurable and available based on actual collections during the 30 days following the fiscal year-end related to transactions that occurred before year-end. Act 154 of October 25, 2010 imposes a new temporary excise tax on the acquisition of certain personal property manufactured or produced in whole or in part in Puerto Rico and on the acquisition of certain manufacturing services carried out in Puerto Rico by nonresident alien individuals, foreign corporations and foreign partnerships. Act 154 applies to income realized and acquisitions occurring after December 31, 2010. Act No 154 provides that, in certain circumstances, taxpayers will be deemed to be engaged in trade or business in Puerto Rico and taxable in Puerto Rico with respect to a portion of taxpayer's income where the taxpayers engage in significant transactions with other persons that are members of the same controlled group. Where a person engages in significant transactions with a member of the same controlled group that has gross receipts of seventy-five million dollars or more in any of the last three years and that manufactures or produces goods in Puerto Rico, or provides services in connection with the manufacture or production of goods in Puerto Rico, the person will not be subject to income tax, will instead be subject to the excise tax in lieu of any income tax. The excise tax will apply for a period of six years. The excise tax is based on the value of the personal property or services acquired and will be 4% for calendar year 2011, declining to 3.75% in 2012, 2.75% in 2013, 2.5% in 2014, 2.25% in 2015 and 1% in 2016.

Real property tax payments for the fiscal year ended June 30, 2011 were due September 1, 2010 and March 1, 2011. Property tax revenue represents payments received during the year and payments received (against the current fiscal year and prior years' levies) within the first three months of the following fiscal year reduced by tax refunds for the fund financial statements. Additionally, the government wide financial statements recognize real property tax revenues (net of refunds) which are not available to the governmental fund type in the fiscal year for which the taxes are levied. Act No. 7 of March 9, 2009, as amended, imposed an additional real property tax on residential and commercial real properties with appraised values in excess of approximately $210,000. This tax applied during fiscal years 2010 and 2011 and amounted to 0.591% of such properties' appraised value as determined by the Municipal Revenue Collection Center (CRIM). Act No. 1 of January 31, 2011 eliminated this additional real property tax commencing the quarter ended June 30, 2011.

Accounts receivable are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables primarily represent amounts owed to the Commonwealth for reimbursement of expenditures incurred pursuant to federally funded programs. Intergovernmental receivables also include taxes that the CRIM, is required to remit to the Commonwealth to be used by the Commonwealth's debt service fund for payment of debt service on general obligations of the Commonwealth. The amount to be remitted is based on the special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation, which is levied by the CRIM.

The accounts receivable from nongovernmental customers of the component units are net of estimated uncollectible amounts. These receivables arise primarily from service charges to users. Accounts receivable from the primary government and other component units that arise from service charges although deemed fully collectible, are evaluated for collectability

Loans of the general fund are net of estimated uncollectible amounts. These receivables arise from amounts owed by public corporations and municipalities for public insurance and rent paid by the general fund on their behalf.

The loans of the pension trust funds do not have allowances for uncollectible amounts since such loans are secured by mortgage deeds, plan members' contributions, and any unrestricted amounts remaining in escrow. Loans of the component units consist predominantly of loans to the primary government, other component units, and municipalities, and do not have allowances for uncollectible accounts as those are deemed fully collectible. The remaining loans of the component units are to small and medium businesses, agricultural, and low income housing loans from nongovernmental customers, and are presented net of estimated losses on such portfolios.

(m) Inventories

Generally, inventories are valued at cost and predominantly on the first in, first out basis. Governmental fund inventories are recorded as expenditures when purchased rather than capitalized as an asset. Only significant amounts of inventory at the end of the year are capitalized in the governmental funds. However, inventories are always capitalized in the statement of net assets of governmental activities.

(n) Restricted Assets

Funds set aside for the payment and guarantee of notes and interest payable and for other specified purposes are classified as restricted assets since their use is limited for this purpose by applicable agreements or required by law. Restricted assets in the proprietary funds mainly include amounts set aside for the payment of insurance benefits.

(o) Real Estate Held for Sale

Real estate held for sale are carried at the lower of fair value or cost, which is established by a third-party professional assessment or based upon an appraisal, minus estimated costs to sell. Subsequent declines in the value of real estate available for sale are charged to expenditure/expense.

(p) Capital Assets

Capital assets include land, buildings, building improvements, equipment (including software), vehicles, construction in process, and infrastructure assets, are reported in the applicable governmental, business type activities, and component unit columns in the government wide financial statements. The Commonwealth's primary government defines capital assets as assets that (i) have an initial, individual cost of $25,000 or more at the date of acquisition; and (ii) have a useful life of five or more years. Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available.

The method to deflate the current cost of the same or a similar asset using an approximate price index was used to estimate the historical cost of certain land, buildings, and building improvements, because invoices and similar documentation were no longer available in certain instances. Donated capital assets are recorded at fair market value at the time of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs are capitalized during the construction period only for business type activities and most component units. The costs of normal maintenance and repairs that do not add value to the assets or materially extend asset lives are not capitalized.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government wide financial statements, as well as the proprietary funds and component units' financial statements.

Capital assets of the primary government are depreciated on the straight line method over the assets' estimated useful life. There is no depreciation recorded for land and construction in progress. The estimated useful life of capital assets is as follows:

	Years
Buildings and building improvements	20–50
Equipment, furniture, fixtures, vehicles and software	5–15
Infrastructure	50

The capital assets of the component units are recorded in accordance with the applicable standards of the component units and under their own individual capitalization thresholds. Depreciation has been recorded when required by these standards based on the types of assets, use and estimated useful lives of the respective assets, and on the nature of each of the component unit's operations.

The estimated useful lives of capital assets reported by the component units are as follows:

	Years
Buildings and building improvements	3–50
Equipment, furniture, fixtures, vehicles and software	3–20
Intangibles, other than software	3–5
Infrastructure	10–50

The Commonwealth follows the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries — an amendment to GASB Statement No. 34*. This statement establishes guidance for accounting and reporting for the impairment of capital assets and for insurance recoveries.

(q) Tax Refunds Payable

During the calendar year, the Commonwealth collects individual income taxes through withholdings and payments from taxpayers. At June 30, the Commonwealth estimates the amount owed to taxpayers for overpayments during the first half of the calendar year. These estimated amounts and the actual tax refunds claimed for prior years but not paid at year end are recorded as tax refunds payable and as a reduction of tax revenue.

(r) Deferred Revenue

Deferred revenue at the governmental fund level arises when potential revenue does not meet either the "measurable" or the "available" criteria for revenue recognition in the current period. Deferred revenue also arises when resources are received before the Commonwealth has a legal claim to them, as when grant moneys are received prior to incurring the qualifying expenditures. In subsequent periods, when the revenue recognition criteria is met, or when the Commonwealth has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet, and the revenue is recognized. Deferred revenue at the government wide and proprietary fund levels arises only when the Commonwealth receives resources before it has a legal claim to them.

(s) Long-term Debt

The liabilities reported in the government wide financial statements include Commonwealth's general obligation bonds and long-term notes, obligations under lease/purchase agreements, and long-term liabilities including vacation, sick leave, long-term liabilities to other governmental entities, net pension obligation, legal claims, and noncurrent federal fund cost disallowances related to expenditures of federal grants. Long-term obligations financed by proprietary fund types and component units are recorded as liabilities in those funds and in the discretely presented component units' column.

Premiums, discounts, and issuance costs — in the government wide financial statements, long-term debt, and other long-term obligations — are presented in the columns for governmental and business type activities. The same is presented in the proprietary fund financial statements. Bond and note premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt. Bonds and notes payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges in other assets and are amortized over the term of the related debt. In the governmental fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

The difference between reacquisition price and the net carrying amount of the old debt in a refunding transaction is deferred and amortized as a component of interest over the remaining life of the old debt, or the life of the new debt, whichever is shorter. On the statement of net assets, this deferred amount is reported as a deduction from, or as an addition to, the new debt liability.

(t) Derivative Instruments

The Commonwealth accounts for derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Derivative instruments such as interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts are entered into by governments as investments; as hedges of identified financial risks associated with assets or liabilities, or expected transactions (i.e., hedgeable items); to lower the costs of borrowings; to effectively fix cash flows or synthetically fix prices; or to offset the changes in fair value of hedgeable items. Certain derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, are reported at fair value by governments in their government-wide financial statements. The changes in fair value of hedging derivative instruments are reported as deferred inflows or deferred outflows. The changes in fair value of investment derivative instruments (which include ineffective hedging derivative instruments) are reported as part of investment revenue in the current reporting period. Effectiveness is determined by considering whether the changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item. See Note 23 for disclosure information relating to hedging and investment derivative instruments.

(u) Accounting for Pension Costs

For the purpose of applying the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers, as amended by GASB Statement No. 50*, Pension Disclosures, the Commonwealth's financial reporting entity is considered to be a sponsor of three defined benefit pension plans: JRS, TRS and ERS. This is because substantially all the participants in the three pension trust funds are part of the financial reporting entity of the Commonwealth. For the purpose of the basic financial statements, and as disclosed in Note 20, the Commonwealth's annual pension cost, measured on the accrual basis of accounting, for the year ended June 30, 2011 amounted to approximately $2.2 billion. However, the amount recognized as pension expenditure in the governmental funds was recorded under the modified accrual basis, and amounted to approximately $874 million. The excess of the annual required contribution over the statutorily required contributions increased the net pension obligation at June 30, 2011 to approximately $9.3 billion. This amount is presented in the statement of net assets (deficit) of the governmental activities as of June 30, 2011.

For purposes of the stand-alone financial statements of each of the blended and discretely presented component units, the entities accounted for pension costs from the standpoint of a participant in a multiple employer cost sharing plan. Accordingly, pension costs recognized are equal to the statutorily or contractually required contributions, with a liability recorded for any unpaid required contributions. The basis of accounting used by the component units was either modified accrual basis or accrual basis, depending upon individual fund structure and type of entity. Most component units did not have pension related assets or liabilities at transition because they have contributed the statutorily required contributions.

(v) Other Postemployment Benefits

In addition to the pension benefits described in Note 21, the Commonwealth provides other postemployment benefits (OPEB) such as summer and Christmas bonus, and post-employment healthcare benefits for its retired employees in accordance with local law. Substantially, all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth.

The Christmas bonus and the summer bonus benefits are provided by the Commonwealth statutes. The Christmas bonus and the summer bonus paid by the Commonwealth to the retired employees during the year ended June 30, 2011 was $600 per retiree and the total amount was approximately $112 million. These benefits are recorded as expenditures when paid in the general fund.

Healthcare benefits are provided through insurance companies whose premiums are paid by the retiree with the Commonwealth providing a matching share of not more than $100 per month for each retiree. During the year ended June 30, 2011, the cost of providing healthcare benefits amounted to approximately $125 million.

(w) Compensated Absences

The vacation policy of the Commonwealth generally provides for the accumulation of 2.5 days per month, except for the teachers who accrue 4 days per month. Vacation time accumulated is fully vested to the employees from the first day of work up to a maximum of 60 days. Employees accumulate sick leave generally at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated unpaid leave at the current rate, if the employee has at least 10 years of service with the Commonwealth. Accrued compensated

absences of the primary government at June 30, 2011 amounting to approximately $1.5 billion are presented in the statement of net assets (deficit). Compensated absence accumulation policies for the blended component units and discretely presented component units vary from entity to entity based on negotiated agreements and other factors agreed upon between the management of these entities and their employees.

The Public Service Personnel Law requires certain component units and the primary government of the Commonwealth to annually pay the employees the accumulated vacation and sick leave earned in excess of the limits mentioned above.

(x) Termination Benefits

Commonwealth accounts for termination benefits in accordance with GASB Statement No. 47, *Accounting for Termination Benefits. Pursuant to the provisions of GASB Statement No. 47*, in financial statements prepared on the accrual basis of accounting, employers should recognize a liability and expense for voluntary termination benefits (for example, early-retirement incentives) when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination benefits (for example, severance benefits) should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated. In financial statements prepared on the modified accrual basis of accounting, liabilities and expenditures for termination benefits should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources.

(y) Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures are recorded to reflect the use of the applicable spending appropriations, is used by the general fund during the fiscal year to control expenditures. The cost of those goods received and services rendered on or before June 30 are recognized as expenditures. For GAAP reporting purposes, encumbrances outstanding at year end are reported within the restricted, committed, and assigned GAAP fund balance classifications and do not constitute expenditures or liabilities on GAAP basis because the commitments will be honored during the subsequent year. The unencumbered balance of any appropriation of the general fund at the end of the fiscal year lapses immediately. Appropriations, other than in the general fund, are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

(z) Interfund and Intraentity Transactions

The Commonwealth has the following types of transactions among funds:

Interfund Transfer — Legally required transfers that are reported when incurred as transfer in by the recipient fund and as transfer out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. However, these transfers and related amounts receivable and payable are considered internal balances and activities that have been eliminated in the government wide financial statements.

Intraentity Transactions — There are two types of intraentity transactions. First, are resource flows between the primary government and its component units and among the component units. These resource flows and related outstanding balances are reported as if they were external transactions. However, resource flows between the primary government and blended component units are classified as interfund transactions, as described above. Second, are intraentity balances between the primary government funds and discretely presented component units that are tantamount to long-term debt financing. The primary government's liability is reported in the statement of net assets, the proceeds in the primary government's funds, and the asset in the discretely presented component units' statement of net assets.

(aa) Lottery Revenue and Prizes

The revenue, expenses, and prizes awarded by the Lottery of Puerto Rico and the Additional Lottery System, reported within the lotteries enterprise fund, are recognized as drawings are held. Moneys collected prior to June 30 for tickets related to drawings to be conducted subsequent to June 30 are reported as deferred revenue. Unpaid prizes awarded as of June 30 are reported as a fund liability. Unclaimed prizes expire after six months and are transferred to the general fund.

(ab) Risk Management

The Commonwealth purchases commercial insurance covering casualty, theft, tort claims, and other losses for the primary government, most component units, and the municipalities. The Commonwealth is reimbursed for premium payments made on behalf of the component units and the municipalities. The current insurance policies have not been canceled or terminated. For workers' compensation, the Commonwealth has a discretely presented component unit, the SIFC, which provides workers' compensation to both public and private employees. In the past three years, the Commonwealth has not settled claims that exceed insurance coverage.

Certain component units combine commercial insurance with internal self-insurance funds covering specific risks related to their specialized operations.

(ac) Tobacco Settlement

The Commonwealth follows GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issue*, as amended by GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, (the "TB"), which provides accounting guidance for entities created to obtain the rights to all or a portion of future tobacco settlement resources and for the governments that create such entities.

The TB indicates that the entity created to obtain the rights, which is called the Tobacco Settlement Authority (TSA), should be considered a component unit of the government that created it and the component unit should be blended. The TB also states that the government receiving the payments from the tobacco companies under the agreement, which are called settling governments, should recognize a receivable and revenue for tobacco settlement resources when an event occurs. The event that results in the recognition of an asset and revenue by the settling government is the domestic shipment of cigarettes. The TB indicates that accruals should be made by the settling government and TSAs for estimated shipments from January 1 to their respective fiscal year ends, since the annual payments are based on a calendar year. However, under the modified accrual basis of accounting at the fund level, revenue should be recognized only to the extent that resources are available.

(ad) Reclassifications

Certain reclassifications have been made to the information presented in the separately issued financial statements of certain blended component units and agencies included within the special revenue, debt service, capital projects, proprietary funds, and discretely presented component units to conform to the accounting classifications used by the Commonwealth in the basic financial statements.

(ae) Use of Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(af) New Accounting Standards Adopted

The following new accounting standards were adopted by the Commonwealth effective July 1, 2010:

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Governments are required to classify and report amounts in the appropriate fund balance classifications by applying accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to financial statements is required. Governments are also required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications. GASB Statement No. 54 also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to financial statements. The objective of GASB Statement No. 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

The financial reporting impact resulting from the implementation of GASB Statement No. 54 is the inclusion of new classifications in the fund balance section of the balance sheet, based on the extent to which the Commonwealth is bound to observe constraints imposed upon the resources in the governmental funds. Fund balance has been reported in Nonspendable and Spendable, which includes Restricted, Committed, Assigned or Unassigned Fund Balance classifications.

GASB Statement No. 59, *Financial Instruments Omnibus*, updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. GASB Statement No. 59 includes the following guidance:

- Emphasizes the applicability of U.S. Securities and Exchange Commission requirements to certain external investment pools — known as 2a7-like pools — to provide users more consistent information on qualifying pools.

- Addresses the applicability of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, to certain financial instruments to clarify which financial instruments are within the scope of that pronouncement and to provide greater consistency in financial reporting.

- Applies the reporting provisions for interest-earning investment contracts of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, to unallocated insurance contracts to improve the consistency of reporting by pension and OPEB plans.

There was no impact on the Commonwealth's financial statements as a result of the implementation of GASB Statement No. 59.

(ag) Future Adoption of Accounting Pronouncements

The GASB has issued the following accounting standards that have effective dates after June 30, 2011:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This Statement addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple employers other postemployment benefit (OPEB) plans. The provisions of this Statement related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Earlier application of this Statement is encouraged.

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This Statement improves financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which: (i) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a facility) in exchange for significant consideration; and (ii) the operator collects and is compensated by fees from third parties. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. This Statement improves financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. This statement is effective for financial statements for periods beginning after June 15, 2012.

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (i) FASB Statements and Interpretations; (ii) Accounting Principles Board Opinions; and (iii) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

- GASB Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The Statement provides financial reporting guidance for deferred outflows of resources, which is a consumption of net assets by the government that is applicable to a future reporting period and deferred inflows of resources which is an acquisition of net assets by the government that is applicable to a future reporting period. GASB Statement No. 63 also amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The requirements of GASB Statement No. 63 are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged.

- GASB Statements No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions — An Amendment of GASB Statement No. 53*. This Statement clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The requirements of GASB Statement No. 64 are effective for financial statements for periods beginning after June 15, 2011. Earlier application is encouraged.

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012.

- GASB Statement No. 66, *Technical Corrections — 2012*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*,

by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*. This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012.

The impact of these statements on the Commonwealth's basic financial statements has not yet been determined.

2. COMPONENT UNITS

The Commonwealth follows the provisions of GASB Statement No. 14, as amended by GASB Statement No. 39. The basic financial statements of the Commonwealth include the financial statements of the following component units that were audited by other auditors:

Blended component units:

Public Buildings Authority
Puerto Rico Maritime Shipping Authority
The Children's Trust

Discretely presented component units:

Agricultural Enterprises Development Administration
Automobile Accidents Compensation Administration
Cardiovascular Center Corporation of Puerto Rico and the Caribbean
Company for the Integral Development of the "Península de Cantera"
Corporation for the "Caño Martín Peña" ENLACE Project
Corporation for the Development of Arts, Science and Film Industry of Puerto Rico
Culebra Conservation and Development Authority
Economic Development Bank for Puerto Rico
Employment and Training Enterprises Corporation
Farm Insurance Corporation of Puerto Rico
Fine Arts Center Corporation
Governing Board of the 911 Service
Institute of Puerto Rican Culture
Institutional Trust of the National Guard of Puerto Rico
Land Authority of Puerto Rico
Musical Arts Corporation
National Parks Company of Puerto Rico
Port of the Americas Authority

Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives
Puerto Rico Aqueduct and Sewer Authority
Puerto Rico Conservatory of Music Corporation
Puerto Rico Council on Higher Education
Puerto Rico Electric Power Authority
Puerto Rico Health Insurance Administration
Puerto Rico Highways and Transportation Authority
Puerto Rico Industrial Development Company
Puerto Rico Industrial, Tourist, Educational, Medical and Environmental,
Control Facilities Financing Authority
Puerto Rico Infrastructure Financing Authority
Puerto Rico Land Administration
Puerto Rico and Municipal Islands Maritime Transport Authority
Puerto Rico Medical Services Administration
Puerto Rico Metropolitan Bus Authority
Puerto Rico Municipal Finance Agency
Puerto Rico Ports Authority
Puerto Rico Public Broadcasting Corporation
Puerto Rico Public Private Partnership Authority
Puerto Rico School of Plastic Arts
Puerto Rico Telephone Authority
Puerto Rico Trade and Export Company
Right to Employment Administration
Solid Waste Authority
Special Communities Perpetual Trust
State Insurance Fund Corporation
University of Puerto Rico

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

(a) Budgetary Control

The Governor is constitutionally required to submit to the Legislature an annual balanced budget of the Commonwealth for the ensuing fiscal year. The annual budget is prepared by the Commonwealth's OMB and takes into consideration the advice provided by the Puerto Rico Planning Board (annual economic growth forecasts and four year capital improvements plan), the Department of the Treasury of the Commonwealth (revenue estimates, accounting records, and the comprehensive annual financial report), GDB (fiscal agent), and other governmental offices and agencies. Section 7 of Article VI of the Constitution of Puerto Rico provides that "The appropriations made for any fiscal year shall not exceed the total revenue, including available surplus, estimated for the said fiscal year, unless the imposition of taxes sufficient to cover the said appropriations is provided by law".

The annual budget, which is developed utilizing elements of program budgeting, includes an estimate of revenue and other resources for the ensuing fiscal year under: (i) laws existing at the time the budget are submitted; and (ii) legislative measures proposed by the Governor and submitted with the proposed budget, as well as the Governor's recommendations as to appropriations that in his judgment are necessary, convenient, and in conformity with the four year capital improvements plan adopted by the Puerto Rico Planning Board.

The Legislature may amend the budget submitted by the Governor but may not increase any items so as to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. Upon passage by the Legislature, the budget is referred to the Governor who may decrease or eliminate any line item but may not increase or insert any new line item in the budget. The Governor may also veto the budget in its entirety and return it to the Legislature with his objections. The Legislature, by two thirds majority in each house, may override the Governor's veto. If a budget is not adopted prior to the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Legislature and the Governor, is automatically renewed for the ensuing fiscal year until a new budget is approved by the Legislature and the Governor. This permits the Commonwealth to continue making payments for its operating and other expenses until the new budget is approved. The appropriated annual budget for fiscal year 2011 amounted to approximately $8.9 billion. The Legislature also made several special budgetary appropriations to the general fund throughout the year, which amounted to approximately $272 million.

The OMB has authority to amend the budget within a department, agency, or government unit without legislative approval.

For budgetary purposes, encumbrance accounting is used. The encumbrances (that is, purchase orders, contracts) are considered expenditures when a commitment is made. For GAAP reporting purposes, encumbrances outstanding at year end are reported within the restricted, committed, and assigned GAAP fund balance classifications and do not constitute expenditures or liabilities on a GAAP basis because the commitments will be honored during the subsequent year. The unencumbered balance of any appropriation of the general fund at the end of the fiscal year lapses immediately. Appropriations, other than in the general fund, are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending. In addition, for budgetary purposes, revenues are recorded when cash is received.

During any fiscal year in which the resources available to the Commonwealth are insufficient to cover the appropriations approved for such year, the Governor may take administrative measures to reduce expenses and submit to both houses of the Legislature a detailed report of any adjustment necessary to balance the budget, or make recommendations to the Legislature for new taxes or authorize borrowings under provisions of existing legislation or take any other necessary action to meet the estimated deficiency. Any such proposed adjustments shall give effect to the "priority norms" established by law for the disbursement of public funds in the following order of priority: (i), the payment of the interest on and amortization requirements for public debt (Commonwealth general obligations and guaranteed debt for which the Commonwealth's guarantee has been exercised); (ii), the fulfillment of obligations arising out of legally binding contracts, court decisions on eminent domain, and other unavoidable obligations to protect the name, credit and full faith of the Commonwealth; (iii), current expenditures in the areas of health, protection of persons and property, education, welfare and retirement systems; and (iv), all other purpose.

In addition, the Legislature may direct that certain revenue be retained and made available for spending within a specific appropriation account. Generally, expenditures may not exceed the level of spending authorized for an individual department. However, the Commonwealth is statutorily required to pay debt service, regardless of whether such amounts are appropriated. Appropriations are enacted for certain departments, agencies, and government units included in the general fund.

For these funds, a statement of revenue and expenditures — budget and actual budget basis — general fund is included. Appropriations for capital projects are made for each bond issue and the authorization continues for the expected construction period.

The OMB has the responsibility to ensure that budgetary spending control is maintained on an individual department basis. OMB may transfer part or all of any unencumbered balance within a department to another department subject to legislative approval. Budgetary control is exercised through the Puerto Rico Integrated Financial Accounting System (PRIFAS). PRIFAS ensures that encumbrances or expenditures are not processed if they exceed the department's total available spending authorization, which is considered its budget. The legal level of budgetary control is at the individual department level for general fund expenditures, principal and interest due for the year for the debt service fund, and by bond authorization for capital expenditures.

(b) Budget/GAAP Reconciliation

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity, timing, and basis differences in the excess (deficiency) of revenue and other financing sources over expenditures and other financing uses for the year ended June 30, 2011 is presented below for the general fund (expressed in thousands):

Excess of revenues and other financing sources over expenditures and other financing uses — budget basis	$ 343,892
Entity differences-excess (deficiency) of revenues and other financing sources under expenditures and other financing uses for:	
Nonbudgeted funds	(72,314)
Inclusion of agencies with independent treasuries	(13,939)
Timing differences:	
Adjustment for encumbrances	194,773
Current year expenditures against prior year encumbrances	(134,814)
Basis of accounting differences:	
Net increase in taxes receivable (net of tax refunds and deferred revenues)	131,067
Net decrease in other receivables	(152,429)
Excess of revenues and other financing sources over expenditures and other financing uses — GAAP basis	$ 296,236

(c) Deficit Net Assets

The following activities, funds, and discretely presented component units reflect deficit fund balance/net assets at June 30, 2011 (expressed in thousands):

Primary Government:	
Governmental activities	$ 34,508,201
General fund	251,060
Enterprise fund-Lotteries	90,298
Component units:	
Puerto Rico Infrastructure Financing Authority	1,562,923
Puerto Rico Health Insurance Administration	278,328
Special Communities Perpetual Trust	243,456
Puerto Rico Medical Services Administration	182,464
Puerto Rico Electric Power Authority	169,495
Agricultural Enterprises Development Administration	105,434
Automobile Accidents Compensations Administration	47,078
Cardiovascular Center Corporation of Puerto Rico and the Caribbean	42,171
Puerto Rico Metropolitan Bus Authority	11,514
Puerto Rico Public Private Partnerships Authority	11,276
Land Authority of Puerto Rico	8,198
Puerto Rico and Municipal Islands Maritime Transportation Authority	8,108
Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority	4,093
Musical Arts Corporation	3,600
Employment and Training Enterprises Corporation	1,924
Right to Employment Administration	1,257

The Commonwealth's governmental activities show a deficit of approximately $34.5 billion, mostly attributed to the Commonwealth outstanding bonds amounting to approximately $29.1 billion, which are recognized in the statement of net assets (deficit). The deficit is attributable to the accumulated effect of high operating expenses in the government along with a decrease in estimated revenues as well as the primary government issuing debt, the proceeds of which are to certain extent transferred to component units and to other governments, and which are not presented in these basic financial statements. On the other hand, the discretely presented component units report net assets of approximately $9.5 billion. This inverse relationship between the governmental activities and component units' net assets reveal the operational structure of the Commonwealth where the primary government issues debt, the proceeds of which are predominantly transferred to the component units and to other governments, that are not presented in these basic financial statements, to finance their capital projects and other operational needs. The Commonwealth includes within the annual budgetary appropriation process the necessary funds to cover the annual debt service requirements of the aforementioned debt, most of which are the result of Act No. 164 of December 17, 2001, described in Note 15(d).

Governmental Activities also include COFINA's deficit amounting to $13.5 billion principally attributed to bonds payable amounting to $14.4 billion; the proceeds of which were used to pay obligations of the Commonwealth of Puerto Rico and for other uses.

In an effort to address the Commonwealth's fiscal difficulties, the current administration is committed to research and pursue solutions to improve the Commonwealth's competitive economic performance and the quality of life for its people. The Commonwealth's economic

development program is focused on initiatives aimed at producing more diversified and sustainable economic development.

The Commonwealth has developed and commenced implementing a multi-year Fiscal Stabilization and Economic Reconstruction Plan that seeks to achieve fiscal balance and restore economic growth and acknowledges that fiscal stabilization is central to safeguarding the Commonwealth's investment-grade credit rating and restoring Puerto Rico's economic growth and development. During the first quarter of 2009, the Legislative Assembly enacted three bills providing for the implementation of this plan, which is composed of two main elements: the Fiscal Stabilization Plan (the "Fiscal Plan") and the Economic Reconstruction Plan (the "Economic Plan").

4. RESTATEMENTS

Subsequent to the issuance of the Commonwealth's basic financial statements for the year ended June 30, 2010, management of various funds and component units determined that their respective 2010 financial statements were misstated.

Primary Government — The following table summarizes changes to net assets at the beginning of the year as previously reported in the statement of activities by the governmental activities and the business-type activities. The changes resulted primarily from restatements to correct errors in the prior year's financial statements of the Public Buildings Authority, a blended component unit presented within governmental activities (see Note 2) and the Unemployment Insurance Fund, Disability Insurance Fund, and Drivers' Insurance Fund, presented within business-type activities, which are audited by other auditors (expressed in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals Primary Government
Net assets (deficit) — beginning of year, as previously reported	$ (31,223,539)	$ 796,910	$ (30,426,629)
Restatement adjustments — principally understatement of liabilities	(2,269)	(24,511)	(26,780)
Net assets (deficit) — beginning of year, as restated	$ (31,225,808)	$ 772,399	$ (30,453,409)

The following table summarizes the effect of the Public Buildings Authority's restatement on fund balance at the beginning of the year as previously reported in the statement of revenues, expenditures, and changes in fund balances (deficit) by the governmental funds (expressed in thousands):

	Other Governmental	Total Governmental
Fund balances (deficit) — beginning of year — as previously reported	$ 567,947	$ 2,676,845
Restatement adjustment — overstatement of accounts payable	858	858
Fund balances (deficit) — beginning of year, as restated	$ 568,805	$ 2,677,703

The net assets of the Unemployment Insurance Fund, Disability Insurance Fund, and Drivers' Insurance Fund as of June 30, 2010, in the statement of revenues, expenses and changes in fund net assets (deficit) of the proprietary funds, as previously reported, have been restated to reflect a decrease of $24,511, which represents the correction of errors, principally understatement of liabilities. A summary of the effect of the restatements in the fiscal year 2010 statement of revenues, expenses, and changes in fund net assets (deficit) of the proprietary funds is as follows (expressed in thousands):

	Business-Type Activities — Enterprise Funds			
	Unemployment Insurance	Lotteries	Other Proprietary	Totals Proprietary
Net assets (deficit) — beginning of year — as previously reported	$ 309,660	$ (104,141)	$ 591,391	$ 796,910
Restatement adjustments — principally understatement of liabilities	(18,863)	-	(5,648)	(24,511)
Net assets (deficit) — beginning of year, as restated	$ 290,797	$ (104,141)	$ 585,743	$ 772,399

Discretely Presented Component Units — The following table summarizes changes to net assets at the beginning of the year as previously reported in the statement of activities by certain discretely presented component units. The changes resulted primarily from restatements to correct errors in the prior year's financial statements of certain component units (expressed in thousands):

Net assets — beginning of year — as previously reported	$ 10,733,710
Restatements of nonmajor component units audited by other auditors (Note 2)	(36,566)
Restatements of major component units audited by other auditors (Note 2)	188,491
Net assets — beginning of year — as restated	$ 10,885,635

5. PUERTO RICO GOVERNMENT INVESTMENT TRUST FUND (PRGITF)

PRGITF was created by Act No. 176, of August 11, 1995, and began operations on December 4, 1995. PRGITF is a no load diversified collective investment trust administered by GDB that was created for the purpose of providing eligible governmental investors of Puerto Rico with a convenient and economical way to invest in a professionally managed money market portfolio. PRGITF is not an investment company or a mutual fund and is not subject to regulation or registration under the investment company Act of 1940. Units issued by PRGITF are not subject to regulation or registration under the Securities and Exchange Act of 1933, as amended, because the units are issued by a government entity. The deposits on hand and the investments purchased are not collateralized, secured, or guaranteed by the Commonwealth or any of its agencies, instrumentalities, or political subdivisions.

PRGITF is considered a 2a7-like external investment pool, and as such, reports its investment at amortized cost.

The investment securities on hand at June 30, 2011, consisted of certificates of deposit and time deposits, money market funds, securities purchased under agreements to resell, corporate obligations, commercial paper, and U.S. government and sponsored agencies obligations, all of which may be considered highly liquid. However, the participants' investments are subject to the ability of PRGITF to

receive payment from the securities' issuer when due. The liquidity of certain investments and changes in interest rates may affect PRGITF's yield and the fair value of its investments.

The dollar amount of the deposits on hand at June 30, 2011 at $1.00 per unit of participation, was reported in the individual financial statements of each of the participants, and combined in the basic financial statements as follows (expressed in thousands):

	Balance Outstanding	Percentage of Total
Primary government:		
Puerto Rico Sales Tax Financing Corporation	$ 157,427	32.89 %
Commonwealth	153,989	32.17
The Children's Trust	25,749	5.38
Puerto Rico Public Buildings Authority	54	0.01
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	2	-
Total for primary government	337,221	70.45
Discretely presented component units:		
Government Development Bank for Puerto Rico	117,362	24.52
Puerto Rico Aqueduct and Sewer Authority	17,033	3.56
Institutional Trust of the National Guard of Puerto Rico	3,896	0.81
State Insurance Fund Corporation	1,037	0.22
Solid Waste Authority	621	0.13
Puerto Rico Land Administration	536	0.11
Puerto Rico Infrastructure Financing Authority	405	0.08
Puerto Rico Electric Power Authority	258	0.05
Puerto Rico Highways and Transportation Authority	170	0.04
Total for discretely presented component units	141,318	29.52
Other governmental entities	149	0.03
Total for all participants	$ 478,688	100.00 %

The deposits at June 30, 2011 were invested in securities with a cost that approximates fair value, plus accrued interest, for approximately $479 million. The external portion of PRGITF was not considered significant for separate reporting in the accompanying basic financial statements.

As June 30, 2011, the PRGITF's investments were rated AAA to A- by Standard and Poor's. U.S. Government securities carry the explicit guarantee of the U.S. Government.

Following is a table of the investments and other assets held at June 30, 2011, presented at amortized cost (expressed in thousands):

Commercial paper	$ 215,993
U.S. government and sponsored agencies obligations	94,527
Securities purchased under agreements to resell	94,018
Money market funds	6,859
Certificates of deposit and time deposits	38,500
Corporate obligations	29,274
Liabilities in excess of other assets	(483)
Total	$ 478,688

6. DEPOSITS AND INVESTMENTS

Pursuant to the provisions of Act No. 91 of March 29, 2004, the primary government may invest in different types of securities, including domestic, international, and fixed income securities, among others.

The primary government maintains a cash and investment pool that is available for use by all funds, except for the fiduciary funds. Each fund's portion of this pool is reported on the statement of net assets as cash and cash equivalents. The fiduciary funds' investments are held and managed separately from those of other primary government funds.

Primary Government — Cash and cash equivalents consist of demand deposits, interest-bearing accounts, certificates of deposit, bank investment contracts, and deposits invested in PRGITF (see Note 5).

The carrying amount of deposits of the primary government at June 30, 2011 consists of the following (expressed in thousands):

	Carrying Amount			Bank
	Unrestricted	Restricted	Total	Balance
Commercial banks	$ 508,997	$ 303,903	$ 812,900	$ 762,304
Governmental banks	373,360	1,335,656	1,709,016	2,219,357
U.S. Treasury	339,666	-	339,666	339,666
Total	$ 1,222,023	$ 1,639,559	$ 2,861,582	$ 3,321,327

Custodial credit risk is the risk that in the event of bank failure, the primary government's deposit might not be recovered. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by banks in the Commonwealth's name. There is no formal policy for custodial credit risk for cash accounts opened with commercial banks outside of Puerto Rico.

At year-end, the Commonwealth's bank balance of deposits in commercial banks amounting to approximately $762 million was covered by federal depository insurance or by collateral held by the

Commonwealth's agent in the Commonwealth's name. Deposits of approximately $339.7 million with the U.S. Treasury represent unemployment insurance taxes collected from employers that are transferred to the federal Unemployment Insurance Trust Fund in the U.S. Treasury. These deposits are uninsured and uncollateralized. The bank balance of deposits in governmental banks, which as of June 30, 2011 amounted to approximately $2.2 billion are also uninsured and uncollateralized. These deposits in governmental banks are maintained with GDB and EDB. Deposits maintained in GDB and EDB are exempt from the collateral requirement established by the Commonwealth and thus represent a custodial credit risk, because in the event of GDB's or EDB's failure, the Commonwealth may not be able to recover these deposits.

Deposits in governmental banks represent the balance of interest and noninterest-bearing accounts in GDB and EDB. The deposit liability at GDB and EDB is substantially related to deposits from other component units and of the Commonwealth. The deposit liability does not agree with the governmental cash balances shown above because of reconciling items such as outstanding checks and deposits in transit.

The bank balance of GDB's and EDB's deposits at June 30, 2011 is broken down as follows (expressed in thousands):

Primary government	$2,146,295
Discretely presented components units	732,951
Total pertaining to the Commonwealth	2,879,246
Municipalities of Puerto Rico	596,744
Other nongovernmental entities	108,877
Escrow accounts	652,308
Certificate of indebtedness	1,771,133
Total deposits per GDB and EDB	$6,008,308

Unrestricted deposits include approximately $479 million that are invested in PRGITF (see Note 5). Such amount has been included as cash and cash equivalents and investments in the statement of net assets (deficit).

Investments

Custodial Credit Risk — Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the transaction, the primary government may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The governmental activities, had approximately $83,684,000 in nonparticipating investment contract (guaranteed investment contract), and $1,521,000 in other investments that were exposed to custodial risk as uninsured, unregistered and held by the counterparties or by their trust departments or agents, but not in the primary government's name.

All of the Commonwealth's investments in U.S. Treasury securities and mortgage-backed securities guaranteed by Government National Mortgage Association (GNMA) carry the explicit guarantee of the U.S. government and are presented as "No Risk" in the credit risk tables.

Governmental Activities — The following table summarizes the type and maturities of investments held by the governmental activities at June 30, 2011 (expressed in thousands). Investments by type in any issuer representing 5% or more of total investments have been separately disclosed. Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

	Maturity (In Years)				
Investment Type	**Within One Year**	**After One to Five Years**	**After Five to Ten Years**	**After Ten Years**	**Total**
U.S. government securities	$354,553	$ -	$ -	$ -	$ 354,553
U.S. government agencies notes:					
Association (FNMA)	-	374,097	-	-	374,097
U.S. corporate bonds and notes	31,011	-	-	-	31,011
Money market funds	58,654	-	-	-	58,654
PRGITF	183,176	-	-	-	183,176
External investment pools — fixed–income securities:					
Dreyfus Government Cash Management	102,659	-	-	-	102,659
Others	-	-	-	27,443	27,443
Nonparticipating investment contracts:					
Bayerische Hypo-und Vereinsbank AG	-	-	-	83,684	83,684
Others	1,565	1,521	-	-	3,086
Total debt securities and fixed–income investment contracts	$731,618	$375,618	$ -	$111,127	$1,218,363
Reconciliation to the government-wide statement of net assets:					
Unrestricted investments and investment contracts					$ 136,943
Restricted investments and investment contracts					1,081,420
Total					$1,218,363

The credit quality ratings (Standard and Poor's) and fair value by investment type for the investments reported by the governmental activities at June 30, 2011 consist of the following (expressed in thousands):

	Credit Risk					
		Rating				
Investment Type	**No Risk**	**AAA To A-**	**BBB+ to B-**	**CCC**	**Not Rated**	**Total**
U.S. government securities	$354,553	$ -	$ -	$ -	$ -	$ 354,553
U.S. government agencies notes:						
FNMA	-	374,097	-	-	-	374,097
U.S. corporate bonds and notes	-	31,011	-	-	-	31,011
Money market funds	-	-	-	-	58,654	58,654
PRGITF	-	183,176	-	-	-	183,176
External investment pools — fixed–income securities:						
Dreyfus Government Cash Management	-	102,659	-	-	-	102,659
Others	-	27,443	-	-	-	27,443
Nonparticipating investment contracts:						
Bayerische Hypo-und Vereinsbank AG	-	83,684	-	-	-	83,684
Others	1,521	-	-	-	1,565	3,086
Total debt securities and fixed–income investment contracts	$356,074	$802,070	$ -	$ -	$60,219	$1,218,363

The Commonwealth classified approximately $154 million of investments presented in PRGITF as cash and cash equivalents.

Business Type Activities — The following table summarizes the type and maturities of investments held by the business-type activities at June 30, 2011 (expressed in thousands). Investments by type in any issuer representing 5% or more of total investments have been separately disclosed. Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

	Maturity (In Years)				
Investment Type	**Within One Year**	**After One to Five Years**	**After Five to Ten Years**	**After Ten Years**	**Total**
U.S. government securities	$ -	$1,007	$ 111	$ 1,041	$ 2,159
Mortgage and asset-backed securities:					
GNMA	-	-	-	2,552	2,552
FNMA	65	-	74	1,155	1,294
Federal Home Loan Mortgage Corporation (FHLMC)	-	-	326	1,852	2,178
Commercial mortgages	-	-	-	1,810	1,810
Asset–backed securities	-	1,561	244	-	1,805
U.S. corporate bonds and notes	-	2,236	2,597	1,446	6,279
Foreign government bonds and notes	-	217	577	-	794
U.S. municipal notes	-	-	-	669	669
Total debt securities and fixed–income investment contracts	$ 65	$5,021	$3,929	$10,525	19,540
External investment pools — equity securities:					
SPDR S&P 500ETF Trust					9,597
MFC ISHARES TR Russell 2000 index Fund					2,774
MFC ISHARES TR MSCI EAFE Index Fund					2,069
MFC Vanguard Tax-Managed Intl Fund					1,177
Total					$35,157
Reconciliation to the government-wide statement of net assets:					
Unrestricted investments and investment contracts					$ -
Restricted investments and investment contracts					35,157
Total					$35,157

The credit quality ratings (Standard and Poor's) and fair value by investment type for the investments reported by the business-type activities at June 30, 2011 consist of the following (expressed in thousands):

	Credit Risk Rating					
Investment Type	**No Risk**	**AAA To A-**	**BBB+ to B-**	**CCC**	**Not Rated**	**Total**
U.S. government securities	$2,159	$ -	$ -	$ -	$ -	$ 2,159
Mortgage and asset-backed securities:						
GNMA	2,552	-	-	-	-	2,552
FNMA	-	1,294	-	-	-	1,294
FHLMC	-	2,178	-	-	-	2,178
Commercial mortgages	-	1,810	-	-	-	1,810
Asset–backed securities	-	1,805	-	-	-	1,805
U.S. corporate bonds and notes	-	4,690	1,589	-	-	6,279
Foreign government bonds and notes	-	794	-	-	-	794
U.S. municipal notes	-	669	-	-	-	669
Total debt securities	$4,711	$13,240	$1,589	$ -	$ -	$19,540

Component Units — Cash and cash equivalents of the component units at June 30, 2011 consist of (expressed in thousands):

	Carrying Amount			Bank
	Unrestricted	Restricted	Total	Balance
Commercial banks	$ 1,403,775	$ 1,464,882	$ 2,868,657	$ 2,950,096
Governmental banks	339,659	329,503	669,162	732,951
Total	$ 1,743,434	$ 1,794,385	$ 3,537,819	$ 3,683,047

Cash and cash equivalents consist of demand deposits, interest-bearing accounts, certificates of deposit, and bank investment contracts.

Custodial credit risk is the risk that, in the event of bank failure, the component unit's deposits might not be recovered. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. There is no formal policy for custodial credit risk for cash accounts opened with commercial banks outside of Puerto Rico.

Deposits maintained in GDB and EDB are exempt from the collateral requirement established by the Commonwealth and thus represent a custodial credit risk because in the event of GDB's or EDB's failure, the Commonwealth may not be able to recover the deposits.

As of June 30, 2011, the component units had approximately $1.9 million of cash and cash equivalents that were exposed to custodial credit risk as uninsured and uncollateralized.

Investments — The component units' investment policies allow management to purchase or enter into the following investment instruments:

- U.S. government and agencies obligations
- Certificates of deposit and time deposits
- Bankers' acceptances
- Obligations of the Commonwealth of Puerto Rico and municipalities
- Federal funds sold
- Securities purchased under agreements to resell ("repurchase agreements')
- World Bank securities
- Corporate debt, including investment contracts
- External investment pools
- Stock of corporations created under the laws of the United States of America or the Commonwealth

- Options, futures, and interest-rates swap agreements for hedging and risk control purposes, as well as for the creation of synthetic products that qualify under any of the foregoing investment categories.

- Open-end mutual funds with acceptable underlying assets and rated AAA by Standard & Poor's or Aaa by Moody's Investors Service.

- A few component units, principally SIFC, are also allowed to enter into foreign currency investments, under certain limitations.

The component units' investment policies establish limitations and other guidelines on amounts to be invested in the aforementioned investment categories and by issuer/counterparty and on exposure by country. In addition, such policies provide guidelines on the institutions with which investment transactions can be entered into.

The component units' investment policies provide that investments transactions shall be entered into only with counterparties that are rated BBB+/A-1 or better by the Standard & Poor's or equivalent rating by Fitch or Moody's Investors Service, depending on the type and maturity of the investment and the counterparty to the transaction. In addition, the investment policy specifies that no more than 5% of a manager's assets at fair value shall be invested in the securities of any single issuer.

The following table summarizes the type and maturities of investments held by the component units at June 30, 2011 (expressed in thousands). Investments by type in any issuer representing 5% or more of total investments have been separately disclosed. Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

	Maturity (In Years)				
Investment Type	Within One Year	After One to Five Years	After Five to Ten Years	After Ten Years	Total
U.S. government securities	$1,164,468	$ 650,802	$ 492,753	$ 102,285	$ 2,410,308
U.S. government agencies notes:					
Federal Home Loan Bank (FHLB)	274,407	703,784	26,923	-	1,005,114
FNMA	90,478	190,606	44,815	54,941	380,840
FHLMC	15,816	153,808	24,645	2,431	196,700
Federal Farm Credit Bank (FFCB)	-	174,524	12,213	-	186,737
Other	3,468	3,594	2,271	-	9,333
Mortgage and asset–backed securities:					
GNMA	11,077	155,293	3,259	537,277	706,906
FNMA	8,001	6,629	117,534	498,882	631,046
FHLMC	-	29,081	93,345	367,104	489,530
Commercial mortgages	-	-	713	40,167	40,880
Asset–backed securities	714	35,000	948	3,856	40,518
Other	3,236	1,721	8,450	-	13,407
U.S. corporate bonds and notes	145,701	470,617	137,012	27,077	780,407
Foreign government bonds and notes	2,341	4,241	1,532	-	8,114
U.S. municipal notes	5,073	91,538	116,177	622,935	835,723
Commonwealth agency bonds and notes	92,785	397,877	330,477	544,256	1,365,395
Money market funds	252,050	-	-	-	252,050
Negotiable certificates of deposit	104,545	-	-	-	104,545
Repurchase agreements	281,021	-	-	-	281,021
PRGITF	118,400	-	-	-	118,400
External investment pools — fixed–income securities	154,506	326	-	4,735	159,567
Nonparticipating investment contracts	112,192	-	-	560,984	673,176
Others	261,455	28,696	1,496	3,199	294,846
Total debt securities and fixed–income investment contracts	$3,101,734	$3,098,137	$1,414,563	$3,370,129	10,984,563
Equity securities:					
U.S. corporate stocks					285,434
Non U.S. corporate stocks					87,395
External investment pools — equity securities					146,246
Limited partnership/private equity					88,490
Total					$11,592,128
Reconciliation to the government-wide statement of net assets:					
Unrestricted investments and investment contracts					$ 6,273,560
Restricted investments and investment contracts					5,318,568
Total					$11,592,128

All investments in U.S. Treasury securities and mortgage-backed securities guaranteed by GNMA carry the explicit guarantee of the U.S. government and are presented as "No Risk" category in the table below. The credit quality ratings for investments held by the component units at June 30, 2011 are as follows (expressed in thousands):

	Credit Risk					
		Rating				
Investment Type	No Risk	AAA To A-	BBB+ to B-	CCC	Not Rated	Total
U.S. government securities	$2,410,308	$ -	$ -	$ -	$ -	$ 2,410,308
U.S. government agencies notes:						
FHLB	-	1,005,114	-	-	-	1,005,114
FNMA	-	380,840	-	-	-	380,840
FHLMC	-	196,700	-	-	-	196,700
FFCB	-	186,737	-	-	-	186,737
Other	-	9,333	-	-	-	9,333
Mortgage and asset–backed securities:						
GNMA	706,906	-	-	-	-	706,906
FNMA	-	631,046	-	-	-	631,046
FHLMC	-	489,530	-	-	-	489,530
Commercial mortgages	-	38,068	-	-	2,812	40,880
Asset–backed securities	-	39,265	890	158	205	40,518
Other	-	17	10,214	-	3,176	13,407
U.S. corporate bonds and notes	-	397,302	376,803	-	6,302	780,407
Foreign government bonds and notes	-	6,897	203	-	1,014	8,114
U.S. municipal notes	-	834,070	-	-	1,653	835,723
Commonwealth agency bonds and notes	-	25,832	1,119,711	-	219,852	1,365,395
Money market funds	8,774	104,387	-	-	138,889	252,050
Negotiable certificates of deposit	-	-	-	-	104,545	104,545
Repurchase agreements	-	-	-	-	281,021	281,021
PRGITF	-	118,400	-	-	-	118,400
External investment pools — fixed–income securities	-	108,062	-	-	51,505	159,567
Nonparticipating investment contracts	-	631,373	41,803	-	-	673,176
Others	-	-	-	-	294,846	294,846
Total debt securities and fixed–income investment contracts	$3,125,988	$5,202,973	$1,549,624	$ 158	$1,105,820	$10,984,563

Certain component units classified approximately $22.9 million of investments presented in PRGITF as cash and cash equivalents.

The component units had approximately $1,183,374,000 in various types of U.S. Government and agency securities, mortgage-backed securities and other investments that were exposed to custodial credit risk as uninsured, unregistered and held by the counterparties or by their trust departments or agents, but not in the component units' name.

Foreign Currency Risk — Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. SIFC limits its exposure to foreign currency risk by limiting the total amount invested to 5% of the portfolio. As of June 30, 2011, the SIFC had the following investments denominated in foreign currency (expressed in thousands):

Description	Currency	Fair Value
Common stock:	Australian Dollar	$ 4,407
	British Pound	6,586
	Canadian Dollar	4,975
	DKK	834
	Euro	16,106
	Hong Kong dollar	4,486
	Japanese Yen	17,638
	Norwegian Krone	2,862
	Singapore Dollar	1,192
	Swedish Krona	540
	Swiss Franc	7,394
Preferred stock —	Euro	2,301
Total equity securities		$ 69,321

Fiduciary Funds — Cash and cash equivalents of the fiduciary funds at June 30, 2011 consist of the following (expressed in thousands):

	Carrying Amount			Bank
	Unrestricted	Restricted	Total	Balance
Commercial banks	$ 1,193,281	$ -	$ 1,193,281	$ 1,190,584
Governmental banks	717,258	411,946	1,129,204	947,808
Total	$ 1,910,539	$ 411,946	$ 2,322,485	$ 2,138,392

Cash and cash equivalents consist of demand deposits, interest bearing accounts, certificates of deposit, and bank investment contracts.

Custodial Risk — Custodial credit risk is the risk that, in the event of a bank failure, the fiduciary funds' deposits might not be recovered. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. Deposits with GDB, Bank of New York, and with other non Puerto Rico commercial banks are uninsured and uncollateralized, as these entities are exempt from compliance with the collateralization requirement.

The Commonwealth was exposed to the following custodial credit risk arising from the balances of deposits maintained by the fiduciary funds in commercial and component units' banks at June 30, 2011 (expressed in thousands):

Insured and collateralized with securities held by the entity or by its agent in the entity's name	$ 3,678
Collateralized with securities held by the pledging financial intitution's trust department or agent in the entity's name	693,827
Uncollateralized	1,440,887
Total	$ 2,138,392

Investments — The fair value of investments in marketable securities held by the Pension Trust Fund as of June 30, 2011, is as follows (in thousands):

Bonds and notes:	
U.S. government and sponsored agencies' securities	$ 374,511
Municipal bonds	32,200
COFINA Bonds	162,500
U.S. corporate bonds	640,289
Total bonds and notes	1,209,500
Stocks and non-exchange traded funds:	
U.S. corporate stocks	396,517
Non-U.S. corporate stocks	105,166
Non-exchange traded mutual funds:	
Equity and other funds:	
U.S.	1,499,970
Non-U.S.	502,303
Fixed income funds:	
U.S.	359,358
Non-U.S.	188,779
Total stocks and non-exchange traded mutual funds	3,052,093
Private equity investments	91,087
Total investments	$ 4,352,680

Pursuant to Act No. 96 of June 16th, 2011, during the fiscal year ended June 30, 2011, ERS received a special contribution of $162.5 million from the Puerto Rico Infrastructure Financing Authority, a component unit of the Commonwealth. The contribution was invested in the COFINA Bonds, which provide for a 7% accretion rate and maturity dates between 2043 and 2048. The COFINA Bonds are included as part of investments in the accompanying statement of fiduciary net assets, while the related contribution is included as part of sponsors' contributions for the year ended June 30, 2011, in the statement of changes in fiduciary net assets.

The Pension Trust Fund's investments are exposed to custodial credit risk, credit risk, concentration of credit risk, foreign currency risk, and interest rate risk. Following is a description of these risks as of June 30, 2011:

Custodial Credit Risk Related to Investments — Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Pension Trust Fund may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2011, securities investments were registered in the name of the Pension Trust Fund and were held in the possession of the Pension Trust Fund's custodian banks, State Street Bank and Trust and Bank of New York, except for securities lent.

Credit Risk — All fixed-income securities at the time of purchase must be of investment grade quality. All issuances shall be rated investment grade by at least two of the nationally recognized rating agencies. The portfolio is expected to maintain a minimum weighted-average credit quality of either "A" or better using either Standard and Poor's or Moody's Investor Service credit ratings. TRS's investment guidelines prohibit the investments in securities with expected maturity dates beyond 30 years. Positions that drift below investment grade should be reported to a management representative of the TRS and monitored carefully. TRS portfolio is not expected to have more than 5% invested in securities that have drifted after purchase below investment-grade quality. JRS investment policy limits the investment in corporate debt securities to the top ratings issued by nationally recognized statistical rating organizations.

The Pension Trust Fund's U.S. government and sponsored agencies' securities portfolio includes approximately $71,779,000 of U.S. Treasury notes and approximately $45,134,000 of mortgage-backed securities guaranteed by Government National Mortgage Association (GNMA), which carry the explicit guarantee of the U.S. government.

The Moody's ratings of bonds as of June 30, 2011, excluding U.S. Treasury notes, mortgage-backed securities guaranteed by GNMA, and the COFINA Bonds are as follows (in thousands):

Moody's Rating	Investment Type	Fair Value
Aaa	U.S. government and sponsored agencies securities	$ 331,893
Aaa	Asset-backed securities	1,916
A3	U.S. government and sponsored agencies securities	1,366
Aaa	U.S. corporate bonds	48,572
Aa2	U.S. corporate bonds	25,917
Aa2	U.S. government issues	158
Aa3	U.S. corporate bonds	45,295
A1	U.S. corporate bonds	59,082
A1	Asset-backed securities	8
A2	U.S. corporate bonds	110,131
A3	U.S. corporate bonds	87,318
Baa1	U.S. corporate bonds	69,314
Baa2	U.S. corporate bonds	111,829
Baa2	Mortgage-backed securities	42
Baa3	U.S. corporate bonds	45,908
Ba3	U.S. corporate bonds	8,097
B2	U.S. corporate bonds	428
B3	U.S. corporate bonds	537
B3	Asset-backed securities	40
B3	Mortgage-backed securities	76
NR	U.S. corporate bonds	2,256
NR	Mortgage-backed securities	118
Ba1	U.S. coporate bonds	12,494
Ba2	U. S. coporate bonds	4,679
Ba2	Mortgage-backed securities	253
A1	Municipal bonds	173,143
A2	Municipal bonds	1,622
A3	Municipal bonds	3,106
Aa1	Municipal bonds	2,053
Aa1	Mortgage-backed securities	481
Aa2	Municipal bonds	9,998
Aa3	Municipal bonds	216
Aaa	Municipal bonds	2,433
Baa1	Municipal bonds	2,129
C	Asset and mortgage-backed securities	109
CA	Asset and mortgage-backed securities	244
Caa1	Asset and mortgage-backed securities	1,091
Caa2	Asset-backed securities	125
Caa3	Mortgage-backed securities	424
WR	Corporate bonds	3,506
	Subtotal	1,168,407
	U.S. Treasury notes and bonds	21,951
	Government National Mortgage Association (GNMA)	19,142
	Total bonds and notes	$ 1,209,500

In addition, the Pension Trust Fund invests in shares of the State Street Global Advisor Intermediate Credit Index Non Lending Fund (the "SSgA Intermediate Fund"). The investment objective of the SSgA Intermediate Fund is to replicate the Barclays Capital U.S. Intermediate Credit Bond Index by investing exclusively in fixed income securities. Shares of the SSgA Intermediate Fund can be redeemed on a daily basis at their net asset value (NAV) and have no redemption restrictions. The Pension Trust Fund's investment in the SSgA Intermediate Fund is included as part of non-exchange traded mutual funds.

Moody's credit ratings for the underlying investments comprising the SSgA Intermediate Fund as of June 30, 2011, are as follows (in thousands):

Moody's Rating	Investment Type	Fair Value
Aaa	Government sponsored/Corporate bonds	$ 68,188
Aa	Government sponsored/Corporate bonds	102,008
A	Government sponsored/Corporate bonds	208,237
Baa	Government sponsored/Corporate bonds	169,704
Total		$ 548,137

Concentration of Credit Risk — No ERS and JRS investment in marketable securities in any organization represents 5% or more of ERS and JRS net assets held in trust for pension benefits. There are no TRS investments in any one issuer that represent 5% or more of total investments as of June 30, 2011. TRS investment guidelines specify that no more than 5% of a manager's assets at market shall be invested in the securities of any single issuer.

As of June 30, 2011, the Pension Trust Fund owned shares in the State Street Global Advisors' S&P 500 Flagship Securities Lending Fund (the "S&P 500 Fund"), the Russell 3000 Index Non Lending Fund (the "Russell 3000 Fund"), the Morgan Stanley Investment Management Active International Allocation Trust (the "Morgan Stanley Fund"), the Invesco International Equity Trust Fund (the "Invesco Fund"), and the SSgA Intermediate Fund, as follows (in thousands):

Fund Name	Shares	Fair Value
S&P 500 Fund	1,623,291	$ 431,968
Russell 3000 Fund	84,154,306	1,068,002
Morgan Stanley Fund	15,999,984	281,072
SSGA Intermediate Fund	318,633,779	548,137
Invesco Fund	6,086,146	221,231
Total		$ 2,550,410

The investment objectives of the S&P 500 Fund and the Russell 3000 Fund are to match the return of the Standard & Poor's 500 Index and the Russell 3000 Index, respectively. The objective of the Morgan Stanley Fund is to achieve capital appreciation through exposure to non U.S. markets. The objective of the Invesco Fund is to achieve capital appreciation by investing primarily in the securities of foreign companies. Shares of these funds can be redeemed on a daily basis at NAV and have no redemption restrictions. The Pension Trust Fund's investment in these funds is included as part of non-exchange traded mutual funds.

As of June 30, 2011, the investments underlying the S&P 500 Fund, the Russell 3000 Fund, the Morgan Stanley Fund, the Invesco Fund, and the SSgA Intermediate Fund had the following sector allocations:

Sector	S&P 500 Fund	Russell 3000 Fund	Morgan Stanley Fund	Invesco Fund	SSgA Intermediate Fund
Information technology	18%	18%	7%	4%	4%
Health care	12%	12%	7%	7%	0%
Financials	15%	16%	20%	21%	33%
Energy	13%	12%	9%	12%	5%
Consumer staples	11%	9%	9%	10%	10%
Industrials	11%	12%	15%	9%	6%
Consumer discretionary	11%	12%	11%	10%	4%
Utilities	3%	4%	2%	5%	7%
Telecommunication services	3%	3%	5%	10%	7%
Materials	4%	5%	14%	12%	4%
Government sponsored	0%	0%	0%	0%	20%
Totals	100%	100%	100%	100%	100%

Interest Rate Risk — In accordance with their investment policy, ERS and JRS manage their exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for benefit payments, thereby avoiding the need to sell securities on the open market prior to maturity. ERS and JRS are expected to achieve capital preservation and income generation by investing in a diversified portfolio of marketable, investment grade core fixed-income securities. ERS investments in equity securities are not subject to the maximum maturity policy since they do not carry a maturity date. TRS is expected to achieve capital preservation and income generation by investing in a diversified portfolio of marketable investment-grade core fixed-income securities. TRS investment guidelines specify that the duration of the portfolio is expected to vary no more than between 75% and 125% of the duration of the respective benchmark.

The contractual maturities of investments in debt securities as of June 30, 2011, are as follow (in thousands):

			Investment Maturities (In Years)			
	Maturity Between	Fair Value	Less Than 1	Between 1-5	Between 5-10	More Than 10
U.S. government and sponsored agencies' securities	(2011–2051)	$ 374,511	$ 31,225	$ 88,126	$ 64,917	$ 190,243
Corporate bonds	(2011–2051)	640,289	42,173	224,083	227,566	146,467
Municipal bonds	(2012–2033)	32,200	4,288	6,929	10,867	10,116
COFINA Bond		162,500				162,500
Total bonds		$ 1,209,500	$ 77,686	$ 319,138	$ 303,350	$ 509,326

As of June 30, 2011, investment maturities as a percentage of total debt securities are as follows:

Maturity	Maximum Maturity
Less than one year	6%
One to five years	26%
More than five to ten years	25%
More than ten years	43%
Total	100%

The average maturity of the investments underlying the SSgA Intermediate Fund was approximately 4.3 years as of June 30, 2011.

Foreign Currency Risk — As of June 30, 2011, ERS and JRS investments in the Morgan Stanley Fund amounting to approximately $281 million represented 100% of the total commingled fund. Also, as of June 30, 2011, ERS and TRS owned approximately $221 million in shares of the Invesco Fund, which represented approximately 89% of the total commingled fund. The Pension Trust Fund owned approximately $401 million in shares of the State Street Intermediate Index Bond Fund, which represents 14% of the total comingled fund.

TRS international portfolio is expected to achieve long-term and aggressive capital appreciation by investing in Core EAFE (Europe Australasia and the Far East) securities. The portfolio is expected to be broadly diversified with respect to exposures to countries, economic sectors, industries, and individual stock. No single issue is expected to exceed 5% (at market) of the portfolio.

The Pension Trust Fund's investments and deposits exposed to foreign currency risk as of June 30, 2011, are as follows:

Investment Type	Local Currency	Fair Value (in thousands)
Foreign currency	Japanese Yen	$ 161
Total cash exposed to foreign currency risk		$ 161
Shares of the Invesco Fund	Various (refer to countries below)	$ 221,231
Shares of the SSgA Intermediate Fund	Various (refer to countries below)	400,775
Shares of the Morgan Stanley Fund	Various (refer to countries below)	281,072
Common stock	Australian Dollar	6,057
Common stock	British Sterling Pound	22,498
Common stock	Danish Krone	6,583
Common stock	Euro Currency	16,958
Common stock	Hong Kong Dollar	4,269
Common stock	Japanese Yen	22,480
Common stock	Norwegian Krone	1,492
Common stock	South Africa Rand	1,113
Common stock	Singapore Dollar	2,758
Common stock	South Korean Won	877
Common stock	Swedish Krona	8,374
Common stock	Swiss Franc	10,767
Common stock	Turkish Lira	940
Total securities exposed to foreign currency risk		$ 1,008,244

As of June 30, 2011, the Morgan Stanley Fund had an asset mix and country allocation as follows:

Morgan Stanley:

Assets Mix	**Percent**
Cash and equivalents	2.26
Future contracts	7.21
Equity securities	90.53
Total	100.00

Country Allocation	**Currency**	**Currency Code**	**Portfolio Percent**
Australia	Dollars	AUD	4.79
Hong Kong	Dollars	HKD	1.50
Singapore	Dollars	SGD	2.20
Japan	Yen	JPY	13.93
Japan Global Survivor	Yen	JPY	4.69
Asia x Pacific			27.11
Austria	Euro	EUR	0.64
Belgium	Euro	EUR	0.58
EMU	Euro	EUR	5.20
European Union Growth	Euro	EUR	3.64
Finland	Euro	EUR	1.23
France	Euro	EUR	6.06
Germany	Euro	EUR	11.19
Italy	Euro	EUR	0.02
Netherlands	Euro	EUR	2.63
Spain	Euro	EUR	1.14
Euro Europe			32.33
Denmark	Kroner	DKK	1.11
Norway	Kroner	NOK	1.98
Sweden	Krona	SEK	3.56
Switzerland	Francs	CHF	7.22
United Kingdom	Pounds	GBP	16.38
Non-Euro Europe			30.25
China	Yuan Renmimbi	CNY	0.55
Indonesia	Rupiahs	IDR	0.41
Philipines	Philipine Peso	PHP	0.88
South Korea	Won	KRW	1.37
Thailand	New Dollars	TWD	0.82
Asia Emerging			4.03
Poland	Zlotych	PLN	0.57
Russia	Ruble	RUB	0.94
Emerging Europe			1.51
Brazil	Brazilian Real	BRL	0.76
Mexico	Mexican Peso	MXN	0.85
Latin America			1.61
Emerging			7.15
Agriculture			0.90
Thematic			0.90
Cash			2.26
Total			100.00

In addition, the composition of the underlying investments in the Invesco Fund and the SSgA Intermediate Fund by country, as of June 30, 2011, was as follows:

Invesco Fund

	Currency	Percentage
Europe:		
Denmark	Danish Krone	1%
Finland	Euro	1%
France	Euro	9%
Germany	Euro	6%
Italy	Euro	3%
Netherlands	Euro	2%
Norway	Norwegian Krone	3%
Spain	Euro	6%
Switzerland	Swiss Franc	8%
United Kingdom	Sterling Pound	14%
Total Europe		53%
Pacific Basin:		
Australia	Australian Dollar	7%
Hong Kong	Hong Kong Dollar	3%
Japan	Japanese Yen	25%
Total Pacific Basin		35%
Emerging markets	Various	6%
Canada	Canada Dollar	6%
Total investments		100%

SSgA Intermediate Fund

	Currency	Percentage
Europe:		
Germany	Euro	4 %
Switzerland	Swiss Franc	2 %
United Kingdom	Sterling Pound	4 %
Total Europe		10 %
Pacific Basin:		
Australia	Australian Dollar	1 %
Japan	Japanese Yen	1 %
Total Pacific Basin		2 %
Americas:		
Canada	Canada Dollar	5 %
Mexico	Mexican Peso	1 %
Brazil	Brazilian Real	1 %
U.S.	U.S. Dollar	66 %
Total Americas		73 %
Supranational	Various	7 %
Other	Various	8 %
Total investments		100 %

7. SECURITIES LENDING TRANSACTIONS

During the year, the pension trust funds, included within the fiduciary funds, the Government Development Bank (GDB), the Economic Development Bank (EDB), ant the State Insurance Fund Corporation (SIFC), discretely presented component units, entered into securities lending transactions. These transactions are explained below:

Pension Trust Funds

The Retirement System participates in a securities lending program, whereby securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, government securities, and/or irrevocable bank letters of credit equal to approximately 102% of the market value of the domestic securities on loan and 105% of the market value of the international securities on loan, with a simultaneous agreement to return the collateral for the same securities in the future. Collateral is marked to market daily, and the agent places a request for additional collateral from brokers, if needed. The custodian bank is the agent for the securities lending program.

At year end, the Retirement System has no credit risk exposure to borrowers because the amounts that the Retirement System owes the borrowers (the “collateral”) exceeded the amounts the borrowers owe to the Retirement System (the “loaned securities”). At June 30, 2011, the collateral received represented 102% of the fair value of the domestic securities lent.

The securities on loan for which collateral was received as of June 30, 2011, consisted of the following (expressed in thousands):

Descrpition	Fair Value of Underlying Securities
U.S. government and sponsored agencies' securities	$ 39,352
U.S. equity securities	79,260
U.S. corporate debt securities	9,645
Non U.S. equity securities	5,074
Non-exchange traded mutual funds:	
U.S.	65,551
Non U.S.	4,831
Total	$ 203,713

The underlying collateral for these securities had a fair value of approximately $208 million as of June 30, 2011. The collateral received was invested in a short term investment fund sponsored by the custodian bank and is presented as collateral for securities lending transactions in the accompanying statement of fiduciary net assets.

As of June 30, 2011, the distribution of the short-term investment fund by investment type is as follows:

Investment Type	Percentage
Securities bought under agreements to resell	13.37 %
Commercial paper	20.60 %
Certificates of deposit	17.78 %
Floating rate notes	31.39 %
Interest bearing	0.19 %
Time deposits	16.67 %
	100 %

Under the terms of the securities lending agreement, the Retirement System is fully indemnified against failure of the borrowers to return the loaned securities (to the extent the collateral is inadequate to replace the loaned securities) or failure to pay the Retirement System for income distributions by the securities' issuers while the securities are on loan. In addition, the Retirement System is indemnified against loss should the lending agent fail to demand adequate and appropriate collateral on a timely basis.

Component Units

GDB

The following is selected information concerning securities sold under agreements to repurchase (expressed in thousands):

Carrying amount at June 30, 2011	$ 970,819
Maximum amount outstanding at any month-end	970,819
Average amount outstanding during the year	650,176
Weighted average interest rate for the year	2.43 %
Weighted average interest rate at year-end	0.13 %

The following summarizes the activity of securities sold under agreements to repurchase for the year ended June 30, 2011 (expressed in thousands):

	Beginning Balance	Issuances	Maturities	Ending Balance
GDB Operating Fund	$ 1,058,835	$ 4,477,337	$ 4,565,353	$ 970,819

All sales of investments under agreements to repurchase are for fixed terms. In investing the proceeds of securities sold under agreements to repurchase, GDB's policy is for the term to maturity of investments to be on or before the maturity of the related repurchase agreements. At June 30, 2011, the total amount of securities sold under agreements to repurchase mature within one year.

EDB

EDB's investment policies, as authorized by Act number 22 of July 24, 1985, Article 3, allow management to purchase securities under agreements to resell. The following table summarizes certain information about these agreements (expressed in thousands):

Carrying amount at June 30, 2011	$ 281,021
Average amount outstanding during the year	342,263
Maximum amount outstanding at any month-end	431,259
Weighted average interest rate for the year	0.85 %
Weighted average interest rate at year-end	0.79 %
Weighted average maturity (years)	0.10 %

EDB's investment policies establish the minimum amount of acceptable collateral. The market prices of the collateral are revised monthly and the margin amount adjusted accordingly. The aggregate market value of the securities underlying the agreements outstanding at June 30, 2011 was $303.5 million.

As of June 30, 2011, securities sold under agreements to repurchase were collateralized with mortgage-backed securities, other government agencies securities, and other investments with a market value of $148.5 million.

The activity for securities sold under agreements to repurchase during 2011 was as follows (expressed in thousands):

	Beginning Balance	Issuances	Maturities	Ending Balance	Amounts Due Within One year
Securities sold under agreements to repurchase	$ 177,750	$ 286,384	$ 326,734	$ 137,400	$ 86,600

SIFC

The Commonwealth statutes and the SIFC's board of directors' policies permit the SIFC to use its investments to enter into securities lending transactions, whereby securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, securities and/or irrevocable bank letter of credit. The SIFC's securities custodian, JP Morgan Chase Bank, N.A., as agent of the SIFC, manages the securities lending program and receives cash, securities, or irrevocable bank letters of credit as collateral. The collateral securities cannot be pledged or sold by the SIFC unless the borrower defaults. The collateral requirement is equal to 102% for securities issued in the United States of America and 105% for securities issued outside of the United States of America, of the fair value of the securities lent. Additional collateral has to be provided by the next business day if it's fair value falls to less than 100% of the fair value of the securities lent. All security loans can be terminated on demand by either the SIFC or the borrower, although the average term of the loans is two weeks. In lending securities, the term to maturity of the securities loans is matched with the term to maturity of the investment of the cash collateral. Such matching existed at year-end. At year end, the SIFC has no credit risk exposure to borrowers because the amounts the SIFC owes the borrowers exceed the amounts the borrowers owe SIFC. Contracts with the lending agents require them to indemnify the SIFC if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the SIFC for income distributions by the securities' issuers while the securities are on loan.

Securities lent as of June 30, 2011 had a fair value of $150.1 million and were secured with collateral received with a fair value of $152.6 million. Securities lent for which cash was received as collateral as of June 30, 2011 consist of the following (expressed in thousands):

Description	Fair Value of Underlying Securities
Corporate bonds and notes	$ 24,340
Equity securities	14,486
U.S. sponsored agencies bonds and notes	10,616
U.S. Treasury notes and bonds	33,697
	$ 83,139

Cash collateral received as of June 30, 2011 amounted to $84.3 million and was invested as follows (expressed in thousands):

Description	Fair Value of Underlying Securities
Resell agreements	$ 40,203
Foreign certificates of deposit with other banks	8,000
Comercial paper	14,037
Certificates of deposit with other banks	10,000
Corporate bonds and notes	12,044
	$ 84,284

In addition, the SIFC had the following lending obligations as of June 30, 2011 for which securities were received as collateral (expressed in thousands):

	Fair Value	
Description	Securities Lent	Investment Collateral Received
U.S. Treasury notes and bonds	$ 61,594	$ 62,849
U.S. Sponsored agencies bonds and notes	5,335	5,444
	$ 66,929	$ 68,293

8. INVESTMENTS IN LIMITED PARTNERSHIPS

Pursuant to the Statement of Investment Guidelines for the Government of Puerto Rico, the pension trust funds and the component units invested approximately $15 million in limited partnerships during the year ended June 30, 2011. The investments were as follows:

- During fiscal year 2011, there were no contributions to Guayacán Fund of Funds, L.P., a Delaware limited partnership, organized by Grupo Guayacán, Inc. as general partner, which has total commitments of $55.5 million (of which $45 million are from pension trust funds and the remaining balances from private corporate investors). This fund invests in the United States of America and international private equity partnerships that in turn invest in private companies.

- During fiscal year 2011, there were no contributions to Guayacán Fund of Funds, II, L.P., a Delaware limited partnership, organized by Grupo Guayacán, Inc. as general partner, which has total commitments of $62 million (of which $50 million are from the pension trust funds and the remaining balances from private corporate investors). The fund invests in a broad range of U.S. and international private equity investment partnerships that, in turn, will make equity and equity related investments primarily in private businesses.

- During fiscal year 2011, approximately $5.8 million were invested in Guayacán Fund of Funds III, L.P., a Delaware limited partnership, organized by Grupo Guayacán, Inc., as general partner, that has total commitments of $81.8 million (of which $40 million are from the State Insurance Fund Corporation and the remaining balances from private corporate investors.) This fund seek to provide investors with a superior investment return and extensive diversification by investing in seventeen (17) private equity investment partnerships in the United States and Europe.

- During fiscal year 2011, there were no contributions to Guayacán Private Equity Fund, L.P., a Delaware limited partnership, organized by Advent Morro Equity Partners, Inc. as general partner, that has total commitments of $41.9 million (of which $10 million are from the pension trust funds, $20 million are from a component unit and the remaining balance from the private corporate investors in Puerto Rico). This fund invests in Puerto Rico private equity.

- During fiscal year 2011, approximately $6.2 million were invested in Guayacán Private Equity Fund II, L.P. a Delaware limited partnership, organized by Advent/Morro Partners as general partner, that has total commitments of $69 million (of which $15 million are from pension trust funds and $30 million are from components units, and the remaining balance from the private corporate investors in Puerto Rico). This fund invests in Puerto Rico private equity.

- During fiscal year 2011, approximately $5.4 million were invested in GF Capital Private Equity Fund, L.P., a limited partnership, organized under the laws of the State of Delaware, in which the pension trust funds have a total commitment of $25 million. The purpose of the partnership is to make private equity investments in a variety of industries, including media and entertainment, branded consumer products, and software for media and telecommunications applications. The partnership initiatives are focused on companies capitalized at between $20 million to $400 million with a representation of buyouts, growth capital, and recapitalizations.

- During fiscal year 2011, there were no contributions to Chase Capital Partners Private Equity Fund of Funds Corporate Investors II, LTD, a limited partnership, organized by Chase as general partner, in which the pension trust funds have a total commitment of $20 million. The fund’s investment strategy is to capitalize on a globally diversified portfolio of private equity investment opportunities across various sectors including buyouts, growth equity, venture capital, and other special situations through partnership and direct investments.

- During fiscal year 2011, there were no contributions to Chase Capital Partners Private Equity Fund of Funds II, LTD, a limited partnership, organized by J.P. Morgan Alternative Asset Management, Inc. as investment manager, in which the pension trust funds have a total commitment of $15 million. The fund’s investment strategy is to capitalize on a globally diversified portfolio of private equity investments opportunities across various sectors, including buyouts, growth equity, venture capital and other special situations through partnership, investments, and direct investments.

- During fiscal year 2011, there were no contributions to Invesco Venture Partnership Fund III, L.P., a Delaware limited partnership, organized by IPC Partnership Associates III, LLC as general partner, in which the pension trust funds have a total commitment of $5.5 million. The partnership was organized to invest in other collective investments funds investing in alternative assets, including primarily U.S. and international funds that focus on both early- and later-stage venture capital investments.

- During fiscal year 2011, there were no contributions to Invesco Non U.S. Partnership Fund III, L.P., a Delaware limited partnership, organized by IPC Partnership Associates III, LLC as general partner, in which the pension trust funds have a total commitment of $4.5 million. The partnership was organized to invest in other collective investments funds investing in alternative assets, including primarily investments focusing on non U.S. buyouts, expansion capital, turnaround, mezzanine, and distressed investment partnerships.

- During fiscal year 2011, there were no contributions to Invesco U.S. Buyout & Expansion Capital Partnership Fund III, L.P., a Delaware limited partnership, organized by IPC Partnership Associates III, LLC as general partner, in which the pension trust funds have a total commitment of $3.7 million. The partnership was organized to invest in other collective investment funds investing in alternative assets, including primarily investments focusing on small, mid-size, and large domestic buyout transactions.

- During fiscal year 2011, there were no additional contributions to Venture Capital Fund, Inc., a Puerto Rico Corporation, organized pursuant to Act No. 3 of October 6, 1987, as amended, known as the Puerto Rico Capital Investment Funds Act, that is managed by Advent-Morro Equity Partners (Advent-Morro Equity Partners, Inc.) in which the pension trust funds have a total commitment of $800 thousands. Advent-Morro is a Puerto Rico based private equity firm. The fund was created to make private equity investments in operating companies that are based, or are operating, or a combination of both, in Puerto Rico. Since inception, the fund has invested in 25 companies some of which it continues to provide capital for their expansion.

- The pension trust funds have a commitment and cumulative contribution of $1.7 million in Martineau Bay, which represents an investment in a hotel resort that filed under Chapter 11 of the United States Bankruptcy Code.

  The fair value of the pension trust funds' investments in limited partnerships at June 30, 2011, amounted to approximately $91 million and is presented within other investments in the statement of fiduciary net assets – fiduciary funds. The fair values of these investments have been estimated by the corresponding general partner or fund manager of these partnerships and disclosed in its respective separate audited financial statements. The allocations of net gain and net loss to the limited partners are based on certain percentages, as established in the limited partnership agreements. The difference between the fair value of the investments and the total cumulative contributions is mostly due to distributions made.

As of June 30, 2011, the pension trust funds and discretely presented component units had capital commitments and contributions as follows (expressed in thousands):

	Public Sector Commitments	Fiscal Year Contributions	Cumulative Contributions
Guayacán Fund of Funds, L.P.			
Primary government:			
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	$ 25,000	$ -	$ 23,820
Puerto Rico System of Annuities and Pensions for Teachers	20,000	-	19,056
Subtotal	45,000	-	42,876
Guayacán Fund of Funds II, L.P.			
Primary government:			
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	25,000	-	23,681
Puerto Rico System of Annuities and Pensions for Teachers	25,000	-	23,681
Subtotal	50,000	-	47,362
Guayacán Fund of Funds III, L.P.			
Component Unit:			
State Insurance Fund Corporation	40,000	5,824	11,727
Guayacán Private Equity Fund, L.P.			
Primary government:			
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	5,000	-	4,645
Puerto Rico System of Annuities and Pensions for Teachers	5,000	-	4,645
Component unit:			
Economic Development Bank for Puerto Rico (1)	20,000	-	18,578
Subtotal	30,000	-	27,868
Guayacán Private Equity Fund II, L.P.			
Primary government:			
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	15,000	2,500	17,244
Component unit:			
Economic Development Bank for Puerto Rico (1)	20,000	2,000	13,795
State Insurance Fund Corporation	10,000	1,681	6,898
Subtotal	45,000	6,181	37,937
Other Funds			
Primary government:			
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	45,800	5,350	40,054
Puerto Rico System of Annuities and Pensions for Teachers	28,714	-	26,428
Subtotal	74,514	5,350	66,482
Total	$284,514	$17,355	$234,252

(1) Information related to the Economic Development Bank for Puerto Rico was obtained from unaudited financial statements provided by the respective fund.

9. RECEIVABLES AND PAYABLES

Governmental Activities

Receivables in the governmental funds include approximately $1.4 billion of accrued income, excise and sales and use taxes. Intergovernmental receivables include $294 million from the federal government and $27.2 million from CRIM. In addition, the enterprise funds include $66.2 million of unemployment, disability, and drivers' insurance premium receivable. Payables in the governmental funds include approximately $836.8 million of trade accounts due to suppliers for purchase of merchandise and services rendered and $430.2 million of tax refunds payable.

In accordance with GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issue,* as amended (the "TB"), a receivable of $40.6 million was recorded as other receivable in the government wide financial statements for estimated shipments from January 1 to June 30, 2011, which will be applied to debt service upon collection. Additionally, the TB indicated that the Trust designated as the TSA should recognize a liability for the bonds payable and an expense (and liability if unpaid) in the same period in its stand-alone financial statements. The expense (and liability if unpaid) recognizes the contractual obligation to remit the proceeds of the bond sold to the settling government (the "Commonwealth"). Since the Trust is reported as a blended component unit, the TB indicates these remittances should be reported as transfers into the fund receiving the proceeds and transfers out in the fund that accounts for the activities of the TSA. Since the Trust has no contractual obligation, under its enabling legislation or elsewhere, to remit all bond proceeds or assets related to the GSA to the settling government (the "Commonwealth"), the Trust has not recognized an expense and liability for unpaid proceeds from the bonds since it records the expense as amounts are disbursed as grants to its settling government (including its instrumentalities) or third parties.

Component Units

GDB

Loans to the Commonwealth of Puerto Rico, its agencies and instrumentalities amounted to approximately $6.0 billion or 38.7% of GDB's total assets as of June 30, 2011. These loans are expected to be collected from appropriations from, proceeds from bond issuances of, or revenues generated by, the Commonwealth, its agencies and instrumentalities. The Commonwealth's recurring expenditures have exceeded its recurring revenues during the past years and its credit ratings have been lowered. In addition, many of the Commonwealth's agencies and instrumentalities have had losses from operations during the past years. The collectability of these loans may be affected by budgetary constraints, the fiscal situation, and the credit rating of the Commonwealth of Puerto Rico, its agencies and instrumentalities, and their ability to generate sufficient funds from taxes, charges and/or bond issuances. Continuance of and/or significant negative changes in these factors may affect the ability of the Commonwealth and its agencies and instrumentalities to repay their outstanding loan balances with GDB and accordingly, may have an adverse impact on GDB's financial condition, liquidity, funding sources, and results of operations.

GDB's management believes that no losses will be incurred by GDB with respect to principal and interest on most of its loans to the public sector (including municipalities) and, as a result, no allowance for loan losses is generally established for them. For public sector loans, excluding municipalities, GDB's management bases its position in that in the past, the Director of the Commonwealth's Office of Management and Budget (OMB) has included in the budget of the Commonwealth appropriations to assist the Commonwealth and certain public sector corporations, agencies, and instrumentalities in repaying their loans with GDB. The Legislature of the Commonwealth (the "Legislature") has generally

approved these appropriations, and such practice is anticipated to continue in the future. Further, in accordance with Act No. 164 of December 17, 2001, GDB is no longer allowed to originate loans to any governmental entity for which the source of repayment consists of appropriations from the Commonwealth's general fund without first obtaining the approval of the Legislature, except for (i) loans up to an aggregate amount of $100,000,000 as long as, among other things, GDB obtains the written approval of the Governor and the Director of OMB, (ii) loans to any financially troubled governmental entity to enable it to honor its debt obligations, and (iii) loans to the Secretary of the Treasury under legislation authorizing the Secretary to borrow funds in anticipation of tax revenues.

Although management of GDB believes that no additional losses of principal and interest will be incurred by GDB with respect to loans outstanding to the public sector at June 30, 2011, there can be no assurance that the Director of the OMB will include amounts for loan repayments in the Commonwealths' budget, and that the Legislature will appropriate sufficient funds in the future to cover all amounts due to GDB by the Commonwealth or public sector entities requiring the Commonwealth's support, or that the proceeds from any future bond issuances by COFINA or certain public entities which have financed their capital improvement programs with GDB, will be sufficient to cover the outstanding amount of extra-constitutional or capital improvement program debt at June 30, 2011. The participation of certain public entities in the bond market has been delayed waiting for the credit rating of such entities to improve or for more favorable market conditions. Because of the relationship among GDB, the public sector entities, the Director of the OMB, and the Legislature, the timing and amount of any financial assistance and bond proceeds to be used to repay certain public sector loans cannot be reasonably estimated by GDB. GDB, however, has in the past collected the outstanding principal and interest at the contractual rate on loans repaid from Commonwealth's appropriations or bond proceeds. Accordingly, no allowance has been established in the case of public sector loans for any shortfall between the present value of the expected future cash flows and the recorded investment in the loans.

At June 30, 2011, loans to public corporations and agencies of the Commonwealth amounting to $6,002,823 were repayable from the following sources (in thousands):

Repayment Source	**Amount**
Proceeds from future bond issuances of public corporations	$ 1,646,025
Operating revenues of public entities other than the Commonwealth	1,554,059
Legislative appropriations — previously from issuance of Commonwealth's general obligation bonds	1,116,859
Legislative appropriations — previously from Dedicated Sales Tax Fund	770,799
Legislative appropriations — other	848,239
Other — including funds from federal grants	66,842
Total	$ 6,002,823

During fiscal year 2011, GDB received $63.1 million and $101.4 million of appropriations to repay principal of and interest on public sector loans whose repayment source was originally from the Dedicated Sales Tax Fund, known as FIA by the acronym of its Spanish name, created by Act No. 91 of May 13, 2006, the FIA Fund, and from future issuances of Commonwealth's general obligations bonds, respectively. The Commonwealth's general fund budget for fiscal year 2012 includes $65.1 million and $91.5 million of appropriations to repay principal of and interest on public sector loans whose repayment sources was originally form the FIA Fund and from future issuances of Commonwealth's general obligations bonds, respectively. These appropriations are based on payment schedules proposed by GDB, which are based on a period of amortization of 30 years each, at contractual interest rates. GDB will annually submit to the OMB, to be included in the Commonwealth's budget for legislative

approval in each subsequent fiscal year, an amount established in the payment schedules with the terms stated above. GDB expects that future appropriations will be approved by the Legislature of the Commonwealth to comply with such schedules. However, there can be no assurance that the Director of OMB will include an amount for loan repayments in the Commonwealth's budget, and that the Legislature will appropriate sufficient funds in the future to cover all amounts due to GDB on these loans.

Since one of GDB's principal functions is to provide financing to the Commonwealth and its instrumentalities, GDB's loan portfolio includes loans to various departments and agencies of the Commonwealth, to various public corporations, and to municipalities, which represent a significant portion of the GDB's assets. Loans to the Commonwealth and its departments and agencies typically include working capital lines of credit payable from short-term tax and revenue anticipation notes issued by the Commonwealth, interim financing of capital improvements payable from Commonwealth general obligation bonds or revenue bonds issued by the corresponding agency and, in recent years, loans to finance the Commonwealth's budget deficit payable from the FIA Fund, uncollected taxes and annual appropriations made by the Legislature of Puerto Rico. Loans to the public sector, excluding municipalities, amounted to approximately $6.0 billion or 38.7% of GDB's assets at June 30, 2011.

At June 30, 2011, approximately $2.7 billion of the public sector loans are payable from legislative appropriations from, or future tax revenues of, the Commonwealth. Accordingly, the payment of these loans may be affected by budgetary constraints, the fiscal situation and the credit rating of the Commonwealth. Significant negative changes in these factors may have an adverse impact on GDB's financial condition. From fiscal years 2003 to fiscal year 2010, the Commonwealth's recurring expenditures have exceeded its recurring revenues. These shortfalls were partially covered with loans from GDB and other nonrecurring revenues. From fiscal year 2003 to 2008, GDB granted loans to the Commonwealth aggregating to $1,964 million to cover part of the Commonwealth's deficit. As of June 30, 2011, the outstanding principal amount of these loans was $227 million.

In addition, at June 30, 2011, approximately $3.3 billion of public sector loans are payable from proceeds from future bond issuances and operating income of public corporations of the Commonwealth. GDB lends funds to such public corporations for capital improvements and operating needs. The loans for capital improvements generally are construction loans and are repaid from the proceeds of future bonds issuances of the respective public corporations. Such loans may, however, also be repaid from the revenues of such public corporations, from loans provided by sources other than GDB, from federal grants, and from the sale of assets of such public corporations. The amount of outstanding loans from GDB to the public corporations fluctuates annually, depending upon the capital program needs of the public corporations, the timing and level of their capital expenditures, and their ability to gain access to the long-term capital markets. At June 30, 2011, GDB has approximately $1.3 billion and $1 billion of loans outstanding due from the Puerto Rico Highways and Transportation Authority and the Puerto Rico Aqueduct and Sewer Authority, representing approximately 71% of the $3.3 billion mentioned above. The default by any such and other public sector borrowers on GDB's loans may have a material adverse effect on the financial condition and operating results of GDB.

Pension Trust Funds

Loans receivable from plan members are guaranteed by the contributions of plan members and by other sources, including mortgage deeds and any unrestricted amount remaining in the escrow funds. In addition, collections on loans receivable are received through payroll withholdings. The maximum amount of loans to plan members for personal and cultural trip loans were $15,000 and $10,000, respectively, for the year ended June 30, 2011.

The allowance for loan losses is considered a general allowance for all categories of loans and interest receivable, except mortgage loans, and also a specific allowance for the special collection project loans balances.

As of June 30, 2011, the composition of loans and interest receivable from plan members is summarized as follows (in thousands):

Loans receivable:	
Personal	$ 1,310,434
Mortgage	276,485
Cultural trips	74,762
Total loans to plan members	1,661,681
Accrued interest receivable	30,748
Total loans and interest receivable from plan members	1,692,429
Less allowance for adjustments and losses in realization	(9,539)
Total loans and interest receivable from plan members — net	$ 1,682,890

As of June 30, 2011, accounts receivable from employers consisted of the following (in thousands):

Early retirement programs	$ 41,884
Special laws	63,526
Employer and employee contributions	55,412
Interest on late payments	24,241
Total accounts receivable from employers	185,063
Less allowance for doubtful accounts receivable	(911)
Accounts receivable from employers — net	$ 184,152

According to Act No. 447, each employer must pay, on a monthly basis, the amounts corresponding to contributions and loan repayments, on or before the fifteenth day of the following month. After that date, interests are charged as established by the System.

The accounts receivable from employers related to special laws amounts to $63.5 million as of June 30, 2011. ERS has entered into installment payment agreements with approximately 91% of these employers, while the remaining 9% of employers have not entered into installment payments with ERS.

As of June 30, 2011, accounts receivable from employers include accounts receivable from Medical Service Administration (ASEM by its Spanish acronym) of approximately $41 million, as follow (in thousands):

Employer and employee contributions	$ 21,568
Interest	18,997
Total accounts receivable from ASEM	$ 40,565

During the fiscal year 2011, the Commonwealth's Legislature approved Law 2961 assigning funds to ASEM to settle its account receivable with ERS as of June 30, 2010. On January 5, 2011, ERS received an initial payment of $54 million. In addition, on August 2011, ERS received an interest payment of $14 million. ASEM and ERS have established a 3 year payment plan for the remaining outstanding balance of employer and employee contributions owed.

10. PLEDGES OF RECEIVABLES AND FUTURE REVENUES

The Commonwealth has pledged the first two point seventy-five (2.75%) percent of the sales and use tax for the repayment of certain outstanding obligations of the Commonwealth. During 2011, COFINA, a blended component unit of the Commonwealth, responsible for the financing, payments and retirement of certain debt obligations of the Commonwealth, has issued bonds for approximately $327.5 million payable through 2050. The Commonwealth has committed to appropriate each year, from the sales and use tax, amounts sufficient to cover the principal and interest requirements on the debt issued by COFINA. COFINA has pledged as the sole security for the bonds, the annual appropriations from the Commonwealth. Total principal and interest remaining on the secured debt is $33.2 billion and $16.8 billion, respectively. The pledged sale and use tax base amount for the fiscal year ended June 30, 2011 amounted to $572 million. For fiscal year 2011, interest paid by COFINA amounted to $540.6 million and the sales and use tax revenue recognized by the Commonwealth was $573 million.

Also, the Commonwealth has pledged part of the gross receipts of the gasoline excise taxes and one half of the diesel oil excise taxes (up to $11 million monthly but no more than $120 million annually) and $15 per vehicle per year from motor vehicle license fees for the repayment of the PRHTA Revenue Bonds. The Commonwealth has committed to appropriate each year, from the excise taxes, amounts sufficient to cover the principal and interest requirements on the debt issued by PRHTA. PRHTA has pledged as the sole security for the bonds, the annual appropriations from the Commonwealth. Total principal and interest remaining on the secured debt is $6.2 billion and $5.3 billion, respectively. The pledged excise tax for the fiscal year ended June 30, 2011 amounted to $120 million. For fiscal year 2011, principal and interest paid by PRHTA amounted to $120 million and $315 million, respectively, and the excise tax revenue recognized by the Commonwealth was $271 million.

Rum manufactured in Puerto Rico is subject to federal excise taxes; however, these are returned by the U.S. Internal Revenue Service (IRS) to the Commonwealth. Act No. 44, as amended, requires that in each fiscal year through fiscal year 2057, the first $117 million, of certain federal excise taxes received by the Commonwealth be transferred to the Puerto Rico Infrastructure Financing Authority ("PRIFA"). Such taxes consist of the federal excise taxes levied on rum and other articles produced in Puerto Rico and sold in the United States, which taxes are collected by the U.S. treasury and returned to the Commonwealth. The Commonwealth has pledged these taxes for the repayment of PRIFA's Special Tax Revenue Bonds. The Commonwealth has committed to appropriate each year, from the excise taxes, amounts sufficient to cover the principal and interest requirements on the debt issued by PRIFA. PRIFA has pledged as the sole security for the bonds, the annual appropriations from the Commonwealth. The federal excise taxes securing the Bonds are subject to a number of factors, including the continued

imposition and remittance of such taxes to the Commonwealth and conditions affecting the Puerto Rico rum industry. The level of federal excise taxes to be received by the Commonwealth is currently expected to fall, although the exact amount cannot be determined. If the federal excise taxes received by the Commonwealth in any fiscal year are insufficient, Act No. 44 requires that PRIFA request additional funding. The Director of the Office of Management and Budget of the Commonwealth then includes in the budget of the Commonwealth for the corresponding fiscal year, an appropriation necessary to cover such deficiency, if any. The Commonwealth's Legislature, however, is not obligated to make the necessary appropriation to cover such deficiency. Total principal and interest remaining on the secured debt is $2.5 billion and $1.5 billion, respectively. The pledged federal excise tax amount for the fiscal year ended June 30, 2011 amounted to $117 million. For fiscal year 2011, principal and interest paid by PRIFA amounted to $30.2 million and $82 million, respectively, and the excise tax revenue recognized by the Commonwealth was $117 million.

11. INTERFUND AND INTRAENTITY TRANSACTIONS

Interfund receivables and payables at June 30, 2011 are summarized as follows (expressed in thousands):

Receivable Fund	Payable Fund	
Other governmental	General	$ 104,364
COFINA Debt Service	Pledged Sales and Use Tax	96,652
Lotteries	General	55,575
General	Lotteries	23,095
Other proprietary	General	20,798
General	Unemployment	16,729
General	Other governmental	1,684
General	Other proprietary	803
		$ 319,700

Transfers from (to) other funds for the year ended June 30, 2011 are summarized as follows (expressed in thousands):

Transferee Fund	Transferor Fund	
General	COFINA Special Revenue	$ 1,551,965
COFINA Special Revenue	COFINA Debt Service	1,167,924
Debt service	General	722,456
General	Debt service	658,146
COFINA Debt Service	Pledged Sales and Use Tax	573,016
Other governmental	Other nonmajor governmental	447,747
Other governmental	General	344,061
General	Lotteries	179,175
General	Unemployment	51,205
General	Other proprietary	3,244
Other proprietary	General	3,073
Other governmental	COFINA Special Revenue	5,640
		$ 5,707,652

The principal purposes of the interfund transfers are to (expressed in thousands):

a. Transfer of ($1,167,924) from the COFINA Debt Service Fund to the COFINA Special Revenue Fund to be transferred to the General Fund to fund the Fiscal Stabilization Fund and the Local Stimulus Economic Plan and for the payment of extra constitutional debt.

b. Transfer of ($1,551,965) from the COFINA Special Revenue Fund to the General Fund for the purpose stated above.

c. Transfer of ($722,456) from the General Fund to the Debt Service Fund to make funds available for debt service payments.

d. Transfer of ($658,146) from the Debt Service Fund to the General Fund for the payment of principal and interests on notes payable.

e. Distribution of the sales and use tax for the use of COFINA Debt Service fund as required by enabling legislation for the payment of its bonds ($573,016).

f. Transfer from the PBA special revenue fund to PBA Debt Service Fund and PBA Capital Project Fund ($447,747).

g. Recognize as transfers the rental payments made by the Commonwealth's agencies on properties leased by PBA, a blended component unit of the Commonwealth ($267,105); ($71,097) related to the revenues received from the Tobacco Settlement for the agreement managed by The Children's Trust, a blended component unit of the Commonwealth; and ($5,859) to the Puerto Rico Maritime Shipping Authority for the payment of appropriation debts.

h. Transfer of ($179,175) from the Lotteries to the General Fund to distribute the increase in net assets of the Lotteries for the use of the General Fund, as required by the Lotteries enabling legislation.

i. Transfer from the Unemployment Insurance Fund's related to the distribution of surplus cash corresponding to the General Fund for the payment of administrative expenses ($51,205).

j. Transfer from the Drivers and Disability Insurance Funds related to the distribution of surplus cash to the General Fund ($3,244).

k. Provide local matching funds from the General Fund related to the federal capital grant of the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund, a nonmajor enterprise fund of the Commonwealth ($3,073).

l. Transfer of ($5,640) from the COFINA Special Revenue Fund to the PBA Special Revenue Fund for the payment of principal and interest of line of credits.

Interfund receivables and payables represent the pending settlements of the aforementioned transfers or transactions from current and prior years.

Due from (to) primary government are as follows (expressed in thousands):

Receivable Entity/Fund	Amount
Business-type activities	$413,449
Governmental activities	111,474
	$524,923
Government Development Bank for Puerto Rico	$ 82,906
Puerto Rico Health Insurance Administration	71,501
PR Electric Power Authority	67,656
University of Puerto Rico	65,563
Company for the Integral Development of Península Canter	20,217
Agricultural Enterprises Development Administration	14,718
PR Aqueduct and Sewer Authority	14,173
Puerto Rico Ports Authority	12,700
PR Medical Services Administration	10,152
Land Authority of Puerto Rico	6,635
PR Infrastructure Financing Authority	3,433
Right to Employment Administration	3,093
PR Public Private Partnerships Authority	2,404
University of Puerto Rico Comprehensive Cancer Center	2,000
Solid Waste Authority	1,494
Cardiovascular Center Corporation of PR and the Caribbean	1,490
Puerto Rico Metropolitan Bus Authority	1,108
	$381,243

Payable Entity/Fund	Amount
PR Aqueduct and Sewer Authority	$413,449
Cardiovascular Center Corporation of PR and the Caribbean	31,670
Puerto Rico Ports Authority	27,326
Puerto Rico Metropolitan Bus Authority	11,811
PR Tourism Company	10,473
Puerto Rico Industrial Development Company	7,669
Puerto Rico Health Insurance Administration	7,239
Governing Board of the 911 Service	5,124
PR Highways and Transportation Authority	4,838
PR Medical Services Administration	3,394
National Parks Company of PR	1,930
	$524,923
Governmental activities	$381,243
	$381,243

The amount owed by PRASA of $413 million represents construction loans granted by the Puerto Rico Water Pollution Control Revolving Fund and the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund, nonmajor enterprise funds, to finance the construction of capital assets for PRASA.

The amounts presented as due from primary government by the University of Puerto Rico and the Puerto Rico Electric Power Authority include $56.3 million and $12.6 million, respectively, that were recorded and presented by the Commonwealth as notes payable in the accompanying statement of net assets (deficit) of the governmental activities.

Due from (to) component units are as follows (expressed in thousands):

Receivable Entity/Fund	Amount	Payable Entity/Fund	Amount
Puerto Rico Electric Power Authority	$ 178,910	Puerto Rico Ports Authority	$ 66,918
Puerto Rico Ports Authority	34,878	Puerto Rico Aqueduct and Sewer Authority	49,576
		Puerto Rico and Municipal Islands Maritime Transport Authority	39,753
		PR Highways and Transportation Authority	34,303
Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority	29,084	Puerto Rico Electric Power Authority	29,084
		Puerto Rico Tourism Company	20,995
Puerto Rico Aqueduct and Sewer Authority	20,141	Puerto Rico Medical Services Administration	19,538
Land Authority of Puerto Rico	19,425	Agricultural Enterprises Development Administration	15,517
University of Puerto Rico	17,350	University of Puerto Rico	13,898
Puerto Rico Convention Center District Authority	14,929	Cardiovascular Center Corporation of Puerto Rico and the Caribbean	13,237
State Insurance Fund Corporation	11,172	Solid Waste Authority	9,231
		Puerto Rico Metropolitan Bus Authority	5,812
Puerto Rico Medical Services Administration	6,699	Farm Insurance Corporation of Puerto Rico	5,660
		National Parks Company of Puerto Rico	4,681
Puerto Rico Metropolitan Bus Authority	4,368	State Insurance Fund Corporation	4,273
		Puerto Rico Convention Center District Authority	3,573
PR Highways and Transportation Authority	3,810	Land Authority of Puerto Rico	3,437
Puerto Rico Land Administration	1,306	Puerto Rico Industrial Development Company	2,586
Subtotal	342,072	Subtotal	342,072
		PR Highways and Transportation Authority	1,294,307
		Puerto Rico Aqueduct and Sewer Authority	1,029,949
		Special Communities Perpetual Trust	367,902
		Port of the Americas Authority	214,525
		Puerto Rico Medical Services Administration	193,252
		Puerto Rico Health Insurance Administration	171,080
		Puerto Rico Ports Authority	156,513
		Puerto Rico Convention Center District Authority	147,600
		University of Puerto Rico	112,601
		Agricultural Enterprises Development Administration	99,482
		Puerto Rico Industrial Development Company	88,532
		Solid Waste Authority	68,948
		Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority	59,314
		Land Authority of Puerto Rico	41,834
		Company for the Integral Development of the Península de Cantera	20,175
		University of Puerto Rico Comprehensive Cancer Center	18,317
		National Parks Company of Puerto Rico	13,050
		Economic Development Bank for Puerto Rico	10,337
		Puerto Rico Infrastructure Financing Authority	10,321
		Puerto Rico Public Private Partnerships Authority	9,704
		Institute of Puerto Rican Culture	1,828
		Puerto Rico Conservatory of Music Corporation	1,472
Government Development Bank for Puerto Rico	4,131,043		4,131,043
	$4,473,115		$4,473,115

The rest of the loans receivable reported by GDB consists of the following (expressed in thousands):

Primary government — governmental activities	$ 1,680,956
Other governmental entities and municipalities	1,926,430
Private sector	605,077
Total loans receivable reported by GDB	$ 4,212,463

The loans to the primary government are presented by the Commonwealth within notes payable in the statement of net assets (deficit).

Expenses of the primary government include approximately $2.7 billion in capital and operational contributions made by the primary government to the component units as follows (expressed in thousands):

Puerto Rico Health Insurance Administration	$ 1,217,049
University of Puerto Rico	768,158
Nonmajor components units	587,217
Puerto Rico Aqueduct and Sewer Authority	129,992
Government Development Bank for Puerto Rico	555
Total contributions made by primary government to component units	$ 2,702,971

12. RESTRICTED ASSETS

Restricted assets of the primary government included in the basic financial statements at June 30, 2011 consist of cash, receivables, investments, and other assets to be used for the following purposes (expressed in thousands):

Governmental activities:	
Debt service and sinking fund	$ 1,795,863
Public Housing Administration — funds received from the U.S Housing and Urban Development	1,834
Affordable housing program	1,253
Construction of governmental facilities	348,205
Payment of operational expenses and certain financing granted to the Commonwealth, among other purposes	504,595
Preservation and acquisition of natural resources	10,611
Public safety programs	9,382
Education programs	6,026
Economic development programs	17,493
Public housing and welfare programs	18,689
Health programs	16,376
General government programs	15,903
Other	15,629
Assets in liquidiation	31,243
Total restricted assets of governmental activities	$ 2,793,102
Business-type activities:	
Payment of insurance benefits	$ 444,382
Lending activities	511,145
Total restricted assets for business-type activities	$ 955,527

Liabilities of the primary government payable from restricted assets consist of the following (expressed in thousands):

Governmental activities:	
Debt service	$ 554,084
Other	2,364
Accounts payable to contractors	169,372
Liabilities payable from restricted assets — governmental activities	$ 725,820
Business-type activities:	
Insurance benefits payable	$ 113,457
Accounts payable and accrued liabilites	1,829
Liabilities payable from restricted assets — business-type activities	$ 115,286

Restricted net assets of the primary government consist of the following (expressed in thousands):

Governmental activities restricted net assets:	
Restricted for capital projects	$ 178,833
Net assets in liquidation	31,243
Payment of operational expenses and certain financing granted to the Commonwealth, among other purposes	612,340
Restricted for debt service	1,241,779
Affordable housing and related loan insurance programs	3,087
Total restricted net assets — governmental activities	$ 2,067,282
Business-type activities restricted net assets:	
Lending activities	$ 509,316
Payment of insurance benefits	330,925
Total restricted net assets — business-type activities	$ 840,241

Restricted assets of the component units included in the basic financial statements at June 30, 2011 are to be used for the following purposes (expressed in thousands):

Debt services and sinking fund requirements	$ 4,025,022
Construction and betterments funds	1,620,315
Collateral for underlying securities	1,000,118
Other uses	534,409
Educational funds	99,352
Malpractice insurance fund	8,403
Financial assistance	6,140
Industrial incentives	1,191
Total for components units	$ 7,294,950

Act No. 92 of June 24, 1998, ("Act No. 92") provided, among other things, for the creation of the Permanent Fund of PRIFA. The Permanent Fund consisted of a Corpus Account funded with a portion of the proceeds from the sale of assets of PRTA and additional accounts created or to be created by PRIFA. Act No. 92 provided that the principal of the Corpus Account may not be reduced for any reason and that income received from investments in the Corpus Account and other amounts received may be deposited in any of the additional accounts.

On March 2, 1999, PRIFA received $1.2 billion in connection with the sale of certain assets of PRTA, which were deposited in the Corpus Account. Amounts deposited in the additional accounts are to be used first to pay the principal, premium, and interest of any bonds outstanding or to be issued by PRIFA and then for the expansion, development, and modernization of infrastructure related to the aqueduct and sewer systems of Puerto Rico.

The amounts deposited in the Permanent Fund shall be invested up to $1 billion in (1) direct obligations of the U.S. government; (2) obligations, the payment of principal and interest of which are unconditionally guaranteed by the U.S. government; (3) certificates of deposit of any bank, national bank association, or trust company organized and existing under the laws of the Commonwealth, the United States of America, or any of its states, on which the excess over the federal deposit insurance is secured by investments of the types described in (1) and (2) above; or (4) tax-exempt obligations of any state, instrumentality, agency, or political subdivision of Puerto Rico or the United States, the payment of principal and interest of which is secured by investments of the types described in (1) and (2) above.

Amounts in excess of $1 billion shall be invested in any of the instruments mentioned above or in any other instruments, including publicly traded common and preferred stock, not prohibited by investment guidelines adopted by GDB.

By virtue of Act No. 3 of January 14, 2009 (Act No. 3), Act. No. 44 of June 21, 1988, was amended to permit the PRIFA to sell all or a portion of the outstanding Corpus Account investments held in the 2000 Trust Agreement and use the net proceeds of said redemption to provide for the early extinguishment of the Series 2000 A and B Bonds, maintain a permanent investment of $300 million within the Corpus Account, pay any amounts due to the IRS, payment of transaction costs, and contribute any remaining amounts to the Commonwealth and GDB, among other purposes.

On January 29, 2009, PRIFA entered into an escrow restructuring for the Series 2000 A and B Bonds in accordance with the provisions of Act No. 3 and sold the investments held in the Corpus Account. During the years ended June 30, 2011, 2010, and 2009, PRIFA used the remaining proceeds of the redemption to make additional contributions to the Commonwealth and GDB amounting to approximately $1.7 million, $3.3 million, and $464 million, respectively.

On June 16, 2011, the Legislature of the Commonwealth enacted Act No. 96, which required the early termination of the time deposit agreement between PRIFA and GDB. Act No. 96 also required PRIFA to contribute $162.5 million to the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the "Retirement System"). On June 23, 2011, PRIFA early terminated the time deposit agreement with GDB and made the capital contribution of $162.5 million to the Retirement System. The remaining funds from the cancellation of the time deposit agreement with GDB, which amounted to approximately $165 million were invested by PRIFA in Sales Tax Revenue Bonds Junior Subordinate, Series 2011 A (the "Sales Tax Revenue Bonds") as set forth by Act No. 96. The Sales Tax Revenue Bonds are obligations issued by COFINA. These bonds shall not be subject to redemption prior to their maturity, which range from August 1, 2046 to August 1, 2050.

13. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2011 is as follows (expressed in thousands):

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 873,580	$ 8,988	$ 15,353	$ 867,215
Construction in progress	1,095,355	327,532	305,808	1,117,079
Total capital assets, not being depreciated	1,968,935	336,520	321,161	1,984,294
Buildings and building improvements	7,579,502	706,016	118,386	8,167,132
Equipment, furniture, fixtures, vehicles, and software	530,043	25,121	9,771	545,393
Infrastructure	605,846	-	-	605,846
Total capital assets, being depreciated and amortized	8,715,391	731,137	128,157	9,318,371
Less accumulated depreciation and amortization for:				
Buildings and building improvements	2,847,478	214,608	13,283	3,048,803
Equipment, furniture, fixtures, vehicles, and software	324,695	37,095	5,959	355,831
Infrastructure	118,352	12,989	-	131,341
Total accumulated depreciation and amortization	3,290,525	264,692	19,242	3,535,975
Total capital assets, being depreciated and amortized, net	5,424,866	466,445	108,915	5,782,396
Governmental activities capital assets, net	$ 7,393,801	$ 802,965	$ 430,076	$ 7,766,690
Business-type activities:				
Total capital assets, being depreciated — equipment	$ 5,744	$ 1,126	$ -	$ 6,870
Less accumulated depreciation of equipment	4,158	1,052	-	5,210
Total business-type activities capital assets, being depreciated, net	$ 1,586	$ 74	$ -	$ 1,660

Depreciation and amortization expense was charged to functions/programs of the primary government for the year ended June 30, 2011 as follows (expressed in thousands):

Governmental activities:	
General government	$ 86,886
Public safety	24,289
Health	6,970
Public housing and welfare	97,053
Education	30,742
Economic development	18,752
Total depreciation and amortization expense — governmental activities	$ 264,692

The Commonwealth follows the provision of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, an amendment to GASB Statement No. 34. This statement establishes guidance for accounting and reporting for the impairment of capital assets and for insurance recoveries. Every year the Commonwealth performs an impairment analysis of its capital assets, in order to comply with the requirements of GASB Statement No. 42. The financial reporting impact resulting from this analysis had no effect on the statement of activities for the year ended June 30, 2011.

General infrastructure assets include $472 million representing actual and estimated costs of assets transferred to the Department of Natural and Environmental Resources (DNER) of the Commonwealth in 1997 upon completion of the Cerrillos Dam and Reservoir and the Portugues-River and Bucana-River Projects ("the Cerrillos Dam and Reservoir Project") by the United States (U.S.) Army Corps of Engineers. These infrastructure assets are reported within governmental activities and include dams, intake facilities, and similar items built for flood control, water supply, and recreational purposes. The depreciation is computed using the straight-line method over an estimated useful life of 50 years from the transfer date of the property. Late in April 2011, the Commonwealth received a final debt agreement from the U.S. Army Corps of Engineers establishing a repayment schedule for its allocated share of the construction costs associated with the Cerrillos Dam and Reservoir Project, excluding those costs for items built for recreational purposes, amounting to $214 million. Unpaid allocated share of these construction costs associated with the Cerrillos Dam and Reservoir Project amounted to $212 million, plus accrued interest of $147 million, at June 30, 2011 (see Note 15). The Commonwealth also recorded a payable due to the U.S. Army Corps of Engineers, amounting to $13.3 million, for its estimated allocated share of the construction costs associated with the recreational part of the Cerrillos Dam and Reservoir Project, including accrued interest of $3 million. The final debt agreement between DNER and the U.S. Army Corps of Engineers for the recreational part of the Cerrillos Dam and Reservoir Project has not been finalized, and therefore, terms and conditions could differ from those estimated (see Note 15). The depreciation is computed using the straight-line method over an estimated useful life of 50 years from the transfer date of the property.

On August 17, 2001, the Legislature of the Commonwealth approved Act No. 120, which requires the conditional transfer of the ownership of certain real properties under the name of the Department of Recreation and Sports (DRS) of the Commonwealth to the municipalities of the Commonwealth. The land and the facilities were transferred at no cost to the municipalities. During the fiscal year ended June 30, 2011, land, building, and building improvements amounting to $15 million were transferred to several municipalities.

Discretely Presented Component Units

	Beginning Balance (as Restated)	Increases	Decreases	Ending Balance
Capital assets, not being depreciated/amortized:				
Land	$ 3,081,283	$ 180,969	$ 43,009	$ 3,219,243
Art works	9,400	581	-	9,981
Construction in progress	4,622,208	1,364,761	1,887,118	4,099,851
Total capital assets, not being depreciated/amortized	7,712,891	1,546,311	1,930,127	7,329,075
Capital assets, being depreciated/amortized:				
Buildings and building improvements	4,862,776	321,312	58,718	5,125,370
Equipment, furniture, fixtures, vehicles, and software	9,940,057	543,826	31,026	10,452,857
Infrastructure	26,681,735	722,726	47,720	27,356,741
Intangibles, other than software	2,293	-	-	2,293
Total capital assets, being depreciated/amortized	41,486,861	1,587,864	137,464	42,937,261
Less accumulated depreciation/amortization for:				
Buildings and building improvements	2,112,778	202,196	21,110	2,293,864
Equipment, furniture, fixtures, vehicles and software	2,003,902	160,768	23,895	2,140,775
Infrastructure	14,740,889	812,903	-	15,553,792
Intangibles, other than software	811	55	-	866
Total accumulated depreciation/amortization	18,858,380	1,175,922	45,005	19,989,297
Total capital assets, being depreciated/amortized, net	22,628,481	411,942	92,459	22,947,964
Capital assets, net	$ 30,341,372	$ 1,958,253	$ 2,022,586	$ 30,277,039

On April 6, 2006, PRIFA and PRASA entered into an assistance agreement whereby the infrastructure projects undertaken by PRIFA for PRASA's benefit (the "PRASA Projects") will be transferred to PRASA not later than 90 days after the execution of the agreement. PRIFA and PRASA must comply with certain conditions precedent to transfer, which requires among other: (1) written assignment to PRASA of such contracts in connection with such projects, which contract PRASA determines are necessary; (2) completion of the technical and financial report; (3) completion of a legal report, including an assessment of actual or potential claims for such project; and (4) completion of the land acquisition process and transfer of land to PRASA in connection with such projects. PRIFA continued to fund the completion of the projects still in development up to the maximum available for such purposes.

On June 28, 2010, PRIFA and PRASA entered into an amended assistance agreement (the "Agreement") to acknowledge PRIFA's compliance with the conditions precedent to transfer on all PRASA Projects, excluding land owned by PRIFA, and PRASA's assumption of all operation, maintenance, and safety responsibilities of all PRASA Projects. In connection with the amendment, approximately $915 million of PRIFA's capital assets were transferred to PRASA. The transfer to PRASA of land owned by PRIFA in connection with such projects of approximately $7,568,000 at June 30, 2011, has not been executed since various conditions precedent to the transfer are in the process of being completed.

During the year ended June 30, 2011, PRIFA also transferred completed construction projects amounting to approximately $321 million to municipalities of Puerto Rico, and other agencies and instrumentalities of the Commonwealth, from which $247.6 million related to sport facilities developed for the celebration of the XXI Central American and Caribbean Games were transferred to the Puerto Rico Recreation and Sports Department. During the year ended June 30, 2011, depreciation expense of approximately $125 thousand was charged to the general government function in the accompanying statement of activities.

In October 2010, PRIFA entered into a memorandum of understanding with Puerto Rico Public-Private Partnerships Authority, Puerto Rico Public Buildings Authority, Puerto Rico Department of Education, Puerto Rico Department of Transportation and Public Works (“DTOP”, for its Spanish acronym), and the GDB for the administration of the Schools for the 21st Century Program (the “21st Century Program”). The 21st Century Program comprises the modernization of approximately ninety-one (91) public schools and the construction of ten (10) new public schools in Puerto Rico. At June 30, 2011, total investment under the Program amounted to $71.8 million.

14. TAX REVENUE ANTICIPATION NOTES PAYABLE

Act No. 1 of the Legislature of the Commonwealth, approved on June 26, 1987 (“Act No. 1”), authorizes the Secretary of the Treasury Department to issue, from time to time, notes in anticipation of taxes and revenues (“Tax Revenue Anticipation Notes” or “TRANS”) so that the Secretary, in the cash flow management program designed to maximize the use of moneys in the general fund, will have an alternate means of providing a liquidity mechanism to cover any temporary cash shortages projected for a fiscal year. Act No. 139, approved on November 9, 2005, amended Section 2(g) of Act No. 1 to provide that the total principal amount of notes issued under the provisions of Act No. 1 and outstanding at any time for any fiscal year may not exceed the lesser of eighteen percent (18%) of the net revenues of the general fund for the fiscal year preceding the fiscal year in which the notes are issued or one billion five hundred million dollars ($1,500,000,000).

TRANS issued during fiscal year 2011 amounted to $1,850 million at interest rates ranging from 2.85% to 6%. TRANS proceeds were used to cover temporary cash deficiencies resulting from the timing differences between tax collections and the payments of current expenditures. TRANS were refinanced at various points during the year in order to take advantage of interest rates. The maximum amount of TRANS outstanding at any time during the year was approximately $900 million. As of June 30, 2011, the balance of TRANS outstanding was paid in full.

15. SHORT AND LONG-TERM OBLIGATIONS

(a) Primary Government

Summary of Short and Long-term Obligations — Short and long-term obligations at June 30, 2011 and changes for the year then ended are as follows (expressed in thousands):

Short Term Obligations	Balance At June 30, 2010	Debt Issued	Debt Paid	Original Issue (Discounts) Premiums	Other Net Increases (Decreases)	Balance At June 30, 2011	Due Within One Year
Notes payable to GDB	$ 134,687	$ -	$ (102,508)	$ -	$ -	$ 32,179	$ 32,179
Long Term Obligations							
Governmental activities:							
General obligation and revenue bonds	$28,597,716	$2,138,125	$(1,765,907)	$(20,253)	$ 176,455	$29,126,136	$ 374,027
Commonwealth appropriation bonds	740,077	-	-		3,107	743,184	-
Notes payable to component units:							
GDB	1,426,407	811,948	(589,578)	-	-	1,648,777	121,779
Other	62,888		(13,970)	-	20,000	68,918	37,899
Capital leases	234,984	198	(5,608)	-	-	229,574	5,606
Total bonds, notes payable and capital leases payable	31,062,072	2,950,271	(2,375,063)	(20,253)	199,562	31,816,589	539,311
Compensated absences	1,506,193	-	(740,546)	-	664,918	1,430,565	709,810
Net pension obligation	7,963,950	-	-	-	1,361,402	9,325,352	-
Net postemployment benefit obligation	132,587		-	-	42,331	174,918	-
Voluntary termination benefits payable	-	-	-	-	332,170	332,170	34,386
Other long-term liabilities	2,192,554	-	-	-	132,909	2,325,463	258,589
Total governmental activities	42,857,356	2,950,271	(3,115,609)	(20,253)	2,733,292	45,405,057	1,542,096
Business-type activities:							
Compensated absences	4,229	-	-	-	583	4,812	2,512
Obligation for unpaid lottery prizes	223,901	-	-	-	(5,415)	218,486	57,324
Termination benefits	-	-	(269)	-	2,910	2,641	470
Claims liability for insurance benefits	103,269	-	-	-	(16,931)	86,338	86,338
Total business-type activities	331,399	-	(269)	-	(18,853)	312,277	146,644
Total primary government	$43,188,755	$2,950,271	$(3,115,878)	$(20,253)	$2,714,439	$45,717,334	$1,688,740

The balances of general obligation and revenue bonds paid included within other financing uses and principal as reported in the statement of revenues, expenditures, and changes in fund balances (deficit) – governmental funds do not agree with amounts reported as debt paid in the above table primarily because the above table includes debt paid on general obligation and revenue bonds, which was accrued during the fiscal year 2010 as a fund liability. The prior year fund liability mentioned above amounted to approximately $408 million and was reported as a balance sheet transaction in the fund financial statements in 2010. Also, during fiscal year 2011 the amount of approximately $338 million was accrued as a fund liability. The net effect of $70 million is the difference between the debt paid on bonds and notes in the previous table and the payments in the statement of revenues, expenditures, and changes in fund balances (deficit) – governmental funds.

The other net increases in bonds and notes payable consist of deferred losses on refunding, net of amortization, and amortization of premiums and discounts on bonds and new notes payables. These adjustments did not require any source or use of cash.

Compensated absences, net pension obligation, net postemployment benefit obligation, termination benefits, other long-term liabilities, obligation for unpaid lottery prizes, and claims liability for insurance benefits reflect other net increases (decreases) resulting from adjustments and changes to agree these obligations to their new estimated balances at June 30, 2011.

(b) Debt Limitation

The Constitution of the Commonwealth authorizes the contracting of debts as determined by the Legislature. Nevertheless, Section 2, Article VI of the Constitution of the Commonwealth provides that direct obligations of the Commonwealth evidenced by bonds or notes and backed by the full faith, credit, and taxing power of the Commonwealth shall not be issued if the amounts of the principal of and interest on such bonds and notes and on all such bonds and notes issued thereafter, which are payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year of such proposed issuance on account of bonds or notes guaranteed by the Commonwealth, exceed 15% of the average annual revenues raised under the provisions of Commonwealth legislation and deposited into the Treasury (hereinafter "internal revenues") in the two fiscal years preceding the fiscal year of such proposed issuance. Section 2, Article VI of the Constitution does not limit the amount of debt that the Commonwealth may guarantee so long as the 15% limitation is not exceeded through payments by the Commonwealth on such guaranteed debt. Internal revenues consist principally of income taxes, sales and use tax, property taxes and excise taxes. Certain revenues, such as federal excise taxes on offshore shipments of alcoholic beverages and tobacco products and customs duties, which are collected by the United States Government and returned to the Commonwealth, and motor vehicle fuel taxes, crude oil and derivative products excise taxes and license fees, which are allocated to PRHTA, a discrete component unit, are not included as revenues for the purpose of calculating the debt limit, although they may be available for the payment of debt service. In addition, the portion of sales and use tax allocated to COFINA is not included as internal revenues consistent with the legislation creating COFINA, which transfers ownership of such portion of the sales and use tax to COFINA and provides that such portion is not "available resources" under the constitutional provisions relating to the payment of debt service. At June 30, 2011, the Commonwealth is in compliance with the debt limitation requirement.

(c) Bonds Payable

The Constitution of the Commonwealth provides that public debt will constitute a first claim on the available revenue of the Commonwealth. Public debt includes general obligations and revenue bonds of the Commonwealth and any payment required to be made by the Commonwealth under its guarantees of bonds issued by blended or discretely presented component units. The full faith, credit, and taxing power of the Commonwealth are irrevocably pledged for the prompt payment of the principal and interest of the general obligation bonds.

Act No. 83 of August 30, 1991, as amended, provides for the levy of an annual special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation. The levy is made by CRIM, a municipal corporation, not a component unit of the Commonwealth. CRIM is required to remit the 1.03% of property tax collected to the Commonwealth to be used by the Commonwealth's debt service fund for payment of debt service on general obligations and revenue bonds of the Commonwealth. During the year ended June 30, 2011, the total revenue and receivable reported by the Commonwealth amounted to approximately $122 million and $27 million, respectively, which are included in the debt service fund.

For financial reporting purposes, the outstanding amount of bonds represents the total principal to be repaid, net of unamortized premiums, discount, and deferred refunding losses; for capital appreciation bonds, it represents total principal and unaccreted interest to be repaid.

COFINA

Bonds Payable — On June 23, 2011 COFINA issued Sales Tax Revenue Bonds, Junior Subordinate Series 2011A amounting to approximately $327.5 million. The Junior Subordinate Series 2011A bonds represent capital appreciation bonds which mature between August 1, 2043 and August 1, 2050 on which interest is capitalized at an annual rate of 7% each February and August 1 until maturity. The proceeds from the issuance of the Series 2011A bonds were deposited in an interest-bearing deposit account with GDB and will be used to pay operational expenses of the Commonwealth for fiscal year 2011 and 2012.

Bonds payable outstanding at June 30, 2011 are as follows (expressed in thousands):

	General Obligation Bonds	Revenue Bonds	Total
Term bonds payable through 2044; interest payable semiannually at rates varying from 1.29% to 6.50%.	$ 4,426,291	$ 7,022,799	$ 11,449,090
Serial bonds payable through 2041; interest payable semiannually at rates varying from 1.7% to 6.75%.	4,966,140	996,410	5,962,550
Fixed rate bonds payable through 2058; interest payable at rates varying from 3.38% to 6.50%.	-	5,002,780	5,002,780
Capital appreciation bonds payable through 2056; no interest rate, yield ranging from 3.75% to 7.48%. Net of accreted discount of $116 million. (1)	158,338	4,324,026	4,482,364
The Children's Trust Fund tobacco settlement asset-backed bonds payable through 2057; interest payable annually at rates varying from 4% to 4.25%.	-	1,415,204	1,415,204
Capital Fund Program Bonds, maturing in various dates payable through 2024; interest payable at rates varying from 2.00% to 5.00%.	-	523,060	523,060
Yield curve bonds payable from 2009 through 2031; no interest rate, yield of 2.49%.	156,500	-	156,500
LIBOR-Based Adjustable Rate Bonds due on August 1, 2057; interest payable at a rate of 1.16%.	-	136,000	136,000
Insured bonds payable from 2015 through 2021; interest payable a rate varying from 5.00% to 5.25%.	50,085	-	50,085
Total	9,757,354	19,420,279	29,177,633
Unamortized premium (discount), net	184,340	(22,602)	161,738
Deferred refunding loss, net	(108,377)	(104,858)	(213,235)
Total bonds payable	$ 9,833,317	$ 19,292,819	$ 29,126,136

(1) Revenue bonds include $793 million capital appreciation bonds convertible to fixed rate interest bonds due on August 1, 2025 to August 1, 2032.

As of June 30, 2011, debt service requirements for general obligation and revenue bonds outstanding, including accreted interest of capital appreciation bonds are as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Interest Subsidy (1)	Total
2012	$ 374,027	$ 1,265,867	$ (4,200)	$ 1,635,694
2013	484,360	1,248,134	(4,200)	1,728,294
2014	507,740	1,222,638	(4,200)	1,726,178
2015	522,175	1,219,202	(4,200)	1,737,177
2016	554,210	1,196,941	(4,200)	1,746,951
2017–2021	3,176,415	5,817,506	(21,000)	8,972,921
2022–2026	3,565,921	5,207,165	(21,000)	8,752,086
2027–2031	5,024,567	4,176,318	(21,000)	9,179,885
2032–2036	6,149,927	3,073,868	(21,000)	9,202,795
2037–2041	6,697,025	1,741,281	(21,000)	8,417,306
2042–2046	7,172,215	475,248	(5,247)	7,642,216
2047–2051	6,462,596	287,477	-	6,750,073
2052–2056	5,090,170	287,477	-	5,377,647
2057–2058	10,923,621	80,042	-	11,003,663
Total	56,704,969	$ 27,299,164	$ (131,247)	$ 83,872,886
Less unaccreted interest	(27,527,336)			
Plus unamortized premium, net	161,738			
Less deferred refunding loss, net	(213,235)			
Total	$ 29,126,136			

(1) Sales Tax Revenue Bonds, First Subordinate Series 2010D and 2010E were issued as Build America Bonds. COFINA will receive a subsidy payment from the federal government equal to 35% and 45% , respectively, of the amount of each interest payment.

The table that follows represents governmental activities debt service payments on certain general obligation and revenue variable-rate bonds and the net payments on associated hedging derivative instruments (see Note 23) as of June 30, 2011. Although interest rates on variable rate debt and the current reference rates of hedging derivative instruments change over time, the calculations included in the table below are based on the assumption that the variable rate and the current reference rates of hedging derivative instruments on June 30, 2011 will remain the same for their term.

Year Ending June 30	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Hedging Derivative Instruments, Net	Total
2012	$ 2,550	$ 14,418	$ 31,935	$ 48,903
2013	2,625	14,634	31,861	49,120
2014	2,725	14,567	31,779	49,071
2015	2,825	14,498	31,696	49,019
2016	2,925	14,427	31,608	48,960
2017–2021	349,130	64,971	137,329	551,430
2022–2026	246,145	38,970	76,112	361,227
2027–2031	153,250	20,319	45,593	219,162
2032–2036	67,650	13,464	32,779	113,893
2037–2041	-	7,568	25,888	33,456
2042–2046	-	7,568	25,888	33,456
2047–2051	-	7,568	25,888	33,456
2052–2056	-	7,568	25,888	33,456
2057–2058	136,000	1,892	8,145	146,037
Total	$ 965,825	$ 242,432	$ 562,389	$ 1,770,646

COFINA's outstanding bonds are payable from amounts deposited in the Dedicated Sales Tax Fund in each fiscal year. The minimum amount to be deposited is the Pledged Sales Tax Base Amount, which for the fiscal year ended June 30, 2011, was $572,274,560. The Pledged Sales Tax Base Amount increases each fiscal year thereafter at a statutory rate of 4% up to $1,850,000,000. At June 30, 2011, the Pledged Sales Tax Base Amount, by year, is as follows (expressed in thousands):

Year Ending June 30	Amount
2012	$ 595,166
2013	618,972
2014	643,731
2015	669,480
2016	696,260
2017–2021	3,922,013
2022–2026	4,771,728
2027–2031	5,805,537
2032–2036	7,063,323
2037–2041	8,587,499
2042–2046	9,250,000
2047–2051	9,250,000
2052–2056	9,250,000
2057–2058	3,700,000
Total	$ 64,823,709

On October 5, 2010, the Commonwealth issued $103 million in Public Improvement Refunding Notes Series 2010 D (the “Notes”). The proceeds from the issuance of the Notes were used to redeem $50 million of its Public Improvement Refunding Bonds, Series 2007 A-6 and $50 million of its Public Improvement Refunding Bonds, Series 2007 A-7 (the “Bonds”) and to cancel a line of credit with GDB, used to repay a drawing on the letter of credit securing the Bonds on April 30, 2010.

On February 17, 2011, the Commonwealth issued $356 million in Public Improvement Refunding Bonds, Series 2011 A. The proceeds from the issuance of the bonds were used to (1) refund a portion of the principal (but not the interest) payable on July 1, 2011 on certain general obligation bonds and notes of the Commonwealth; (2) refund, in whole or in part, certain general obligation bonds and notes of the Commonwealth; (3) repay certain GDB lines of credit used to deposit moneys in the Redemption Fund to cover a portion of the principal (but not the interest) on certain general obligation bonds and notes of the Commonwealth; (4) fund termination payments under certain interest rate swap agreements hedging the cash flows of the refunded bonds, and (5) pay certain transaction costs.

On March 2, 2011, the Commonwealth issued $275 million in Public Improvement Refunding Bonds, Series 2011 B. The Series 2011 B Bonds were directly purchased by an institutional investor and the proceeds were used to refund on a current basis, the Commonwealth’s Public Improvement Refunding Bonds, Series 2007 A-8, Series 2007 A-9, and series 2008 B.

On March 17, 2011, the Commonwealth issued $442 million in Public Improvement Refunding Bonds, Series 2011 C. The proceeds from the issuance of the bonds were used to (i) repay advances made to the Commonwealth under a GDB line of credit used to make deposits to the Commonwealth’s Redemption Fund for the repayment of interest (but not principal) due during fiscal year 2011 on certain general obligation bonds and notes, (ii) to pay capitalized interest on the Bonds and (iii) pay certain transactional costs.

On June 23, 2011, the Commonwealth remarketed $188 million variable rate Sub-Series 2003 C-5-2 Bonds in connection with the expiration of the existing liquidity facility for the Series C-5 Bonds, and the substitution therefore of the letter of credit. Pursuant to the terms of the resolution, in order to maintain the Series C-5-2 Bonds in the weekly rate mode, the Secretary of Treasury has elected to replace the existing liquidity facility with respect to the Series C-5 Bonds with an irrevocable, transferable, direct-pay letter of credit of Barclays Bank PLC, to be issued concurrently with the remarketing of the Series C-5-2 Bonds. The letter of credit will expire on June 21, 2013, subject to earlier termination under certain circumstances or extension. The Series C-5-2 Bonds are subject to redemption and tender for purchase prior to maturity.

On August 1, 2008, Puerto Rico Housing Finance Authority (the “Authority”), a blended component unit of GDB, issued Capital Fund Modernization Program Subordinate Bonds amounting to $384 million and Housing Revenue Bonds amounting to $100 million. The proceeds from the issuance were mainly used to finance a loan (the “Loan”) to Vivienda Modernization 1, LLC, (the “LLC”). The LLC will utilize moneys from the Loan for the purpose of financing a portion of the cost of the acquisition and modernization of various housing projects in the Commonwealth and paying certain transactional costs.

The LLC is a limited liability company created under the laws of the Commonwealth whose sole member is Vivienda Modernization Holdings 1, S.E. (the “Sole Member” or the “Partnership”), a civil partnership created under the laws of the Commonwealth. The partnership was created on August 1, 2008 by the Department of Housing of the Commonwealth of Puerto Rico (“DOH”), in its

capacity as the general partner (the "General Partner") and Hudson SLP XL LLC, a Delaware limited liability company, as the Special Limited Partner (the "Special Limited Partner") and Hudson Housing Tax Credit Fund XL LP, a Delaware limited partnership, as the Investment Partnership (the "Investment Partnership"); collectively with the Special Limited Partner, (the "Limited Partners"). The Partnership has been organized exclusively to be the sole member of the LLC, which entity has been organized exclusively to acquire a 99 year term Surface Right with respect to the Land and to develop, finance, rehabilitate, maintain, operate, lease and sell or otherwise dispose of each Apartment Complex, in order to obtain for the Partnership and its Partners statutory compliance, long-term appreciation, cash income, and tax benefits consisting, of tax credits and tax losses over the term hereof. In exchange for acquiring, constructing, or renovating and maintaining housing that is affordable to households with low or limited incomes, owners of such housing may be entitled to a direct credit on their federal taxes in accordance with Section 42 of the Internal Revenue Code of 1986, as amended.

Profits, losses and tax credits are allocated in accordance with the Partnership Agreement. Profits and losses from operations and low-income housing tax credits in any year shall be allocated 99.98% to the Investment Partnership, 0.01% to the Special Limited Partner and 0.01% to the General Partner. As defined in the Partnership Agreement, certain transactions and occurrences warrant special allocations of profits and losses. All other losses shall be allocated to the extent allowable under Section 704(b) of the IRC.

Pursuant to the Partnership Agreement, the Limited Partners are required to provide capital contributions totaling approximately $235 million to the Partnership ("Initial Projected Equity"), subject to potential adjustment based on the amount of low-income housing credits ultimately allocated to the Projects in addition to other potential occurrences as more fully explained in the Partnership Agreement. As of June 30, 2011, the Limited Partners have provided capital contributions totaling $21 million.

Pursuant to the Partnership Agreement, the General Partner is required to provide capital contributions totaling $10 to the Partnership. Should the Partnership have not sufficient funds available to pay the outstanding balance of the developer fee thereof, as defined, the General Partner shall be required to provide additional capital contributions to the Partnership in an amount sufficient for the Partnership to pay such balance in full. The General Partner shall have no right or obligation to make any other capital contributions. As of June 30, 2011, the General Partner had provided no capital contributions. In addition, DOH as general partner shall establish the Assurance Reserve Fund at initial closing in the amount of the initial capital contribution less $4 million (plus any initial capital contribution with respect to the apartment complexes). Amounts in the Assurance Reserve Fund shall be used, (i) upon the request of the General Partner, subject to the consent of the Special Limited Partner, or (ii) upon the direction to the Special Limited Partner, to meet financial obligations of the General Partner, other than for excess development costs, as provided in the Partnership Agreement. As of June 30, 2011, such reserve was maintained in the Partnership. The amount owed to DOH for the assurance reserve fund as of June 30, 2011, amounted to $17 million.

On August 7, 2008, Puerto Rico Public Housing Administration ("PHA") and the LLC entered into a Regulatory and Operating Agreement (the "Agreement"). PHA and the LLC have determined that it would be desirable for the public housing rental development to undergo comprehensive modernization (e.g. new floors, electrical wiring, plumbing, windows, door, roofs and accessibility features) or development, which modernization or development will be undertaken and operated by the LLC.

On August 7, 2008, DOH and PHA entered into an interagency agreement through which PHA transferred title to the public housing rental developments to DOH for the subsequent sale to the LLC. In addition, DOH will make a grant to the Authority from funds in the Program Modernization Fund in excess of the first receipts equal to $20 million to allow the Authority to make a permanent loan to the LLC. The Authority will provide to the LLC a (i) $100 million interim construction loan to be used in connection with the financing of the rehabilitation and/or construction work on the development from the proceeds of tax-exempt bonds issued by the Authority, (ii) $386.8 million capital fund loan in proceeds from certain tax-exempt bonds issued by the Authority, and (iii) a $100 million permanent loan.

On August 7, 2008, the LLC and DOH entered into a Purchase and Sales Agreement through which the LLC acquired the surface rights of a property (the "Property") and the improvement erected on such property consisting of buildings and construction in progress with a net book value and cost of $45.9 million and $110 million, respectively, from DOH under those certain deeds of Constitution of Surface Rights and Transfer of Improvements dated August 7, 2008, which will require the LLC to rehabilitate or construct on the Property four thousand one hundred thirty-two (4,132) residential rental units (the "Units" or collectively the "Development") all of which will receive the benefit of operating subsidy and benefit of low income housing tax credit under Section 42 of the Internal Revenue Code of 1986, as amended. Eighty-four (84) of the units, all of which will be located at the Brisas de Cayey II site, are to be newly constructed. The remaining units will be modernized.

Also, on August 7, 2008, DOH entered into a loan agreement with the LLC in the amount of $102.9 million for the acquisition of the 33 residential rental properties (the "deferred purchase price note"). The LLC shall make payments equal to the amount of net available capital contributions, as defined, for the preceding calendar quarter.

The terms of the deferred purchase price note are described as set forth below:

Commitment	$ 102,889,957
Interest rate	3.55 %
Maturity date	Later of (i) funding of the last installment of the third capital contribution or (ii) August 7, 2013

The note shall be a full recourse liability of the LLC; however, none of the LLC's members has personal liability. As of June 30, 2011, the principal balance outstanding on the deferred purchase price note was $102.8 million and accrued interest was $11 million. At the same time, based on the Purchase and Sale Agreement, PHA received $92.4 million from the LLC, which was used to pay eligible project expenses incurred by PHA on an interim basis to minimize the expenditure of 2003 tax exempt bonds that were ineligible for inclusion in the credit transaction. In addition, PHA received $18.1 million from the LLC for Capital Fund Bonds funds previously expensed by the PHA from June and July 2009.

PHA has entered into an Interagency Agreement dated August 7, 2008 with DOH, in DOH's capacity as general partner of the Partnership, to delegate management and operational duties related to the Development to PHA as set forth in the Interagency Agreement. The LLC and PHA also intend that the units be developed, operated and managed so as to assure receipt by the LLC of the aforementioned economic and tax benefits to the full extent available to the LLC.

Additionally, on August 7, 2008, the LLC entered into a Master Developer Agreement with DOH to perform services in connection with the development, rehabilitation, and modernization of certain housing projects ("Developer Agreement"). Pursuant to the Master Developer Agreement, DOH will

earn a developer's fee in the amount of $75 million for services performed and to be performed. Payment of the developer's fee shall be subject to the terms and conditions of Section 6(a) (i-iv) of the Master Developer Agreement. As of June 30, 2011, the LLC owed DOH the amount of $41 million.

Under the Partnership Agreement, projects which do not meet the final completion schedule or satisfy other completion, occupancy, rent attainment or tax-credit related requirements or other Investor Limited Partner conditions to capital contributions with respect to such projects as set forth in the Partnership Agreement may under certain conditions be required to be purchased by DOH or its designee. In such case, DOH or its designee would assume the portion of the Loan allocated to such project(s), including both moneys remaining to be disbursed and repayment obligations, and would become a new additional borrower under the loan agreement. The LLC would be released with respect to the amount of the Loan assumed. DOH or its designee could also seek to obtain a limited partner (who might or might not be the original Investor Limited Partner) and tax credit equity contributions. Such transfer does not affect the obligation of DOH to grant moneys to the Authority to fund the permanent loan. As a requirement of such purchase, DOH or its designee is required to repay equity already contributed by the Investor Limited Partner, plus interest and a purchase premium.

The Commonwealth's bonds payable are subject to arbitrage regulations issued by the Internal Revenue Service of the United States of America, that require rebate to the federal government of excess investments earnings on tax-exempt debt proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt debt issued. Excess earnings must be rebated every five years or upon maturity of the debt, whichever is earlier. Arbitrage calculations resulted in no liability as of June 30, 2011.

(d) Commonwealth Appropriation Bonds

Over the years, GDB, as fiscal agent and bank for the Commonwealth, had extended lines of credit, advances, and loans to several agencies and component units in order to finance their capital improvement projects and to cover their operational deficits at the time. At different points in time, these loans were refunded through the issuance of Commonwealth appropriation bonds issued by the Puerto Rico Public Finance Corporation (PFC), a blended component unit of GDB. PFC is the financing arm of GDB, which serves only as a conduit for the issuance of the bonds.

During June 2004, PFC advance refunded through the PFC 2004 Series A and B and PFC 2003 Series A through C Refunding Commonwealth Appropriation Bonds, a portion of certain of its outstanding Commonwealth Appropriation Bonds issued in prior years (except for the Health Facilities and Services Administration bonds described below, where no portion was refunded). The Commonwealth recognized a mirror effect of this advance refunding by PFC in its own debt in proportion to the portion of the Commonwealth's notes included in the PFC refunding. As a result, the Commonwealth considered defeased and, therefore, removed from the balance sheet the portion refunded of $775.7 million.

The repayment source for these bonds (both the refunding and unrefunded portions) consisted until June 30, 2006 of Commonwealth appropriations submitted for approval of the Legislature annually during the budget process of the Commonwealth.

During July 2006, the source for the 2007 debt service of these appropriation bonds came from PFC instead (not from legislative appropriations), through an advance of approximately $303 million. PFC got its advance repaid by COFINA, a blended component unit of the Commonwealth created in

2007 with the capacity to issue bonds to repay or refinance the advance from PFC, the appropriation bonds, the Qualified Zone Academic Bonds (QZAB) and other debt obligations to GDB, collectively referred as the extra constitutional debt. The COFINA debt in turn will be serviced with the revenues generated from the collection of the first 1% of the sales and use tax, which came in effect on November 15, 2006 (note 3c). Also during 2009, the Legislative Assembly increased COFINA's dedicated revenues by increasing the percentage of revenues generated from the sales and use tax to 2.75%.

On July 31, 2007, December 20, 2007, and June 26, 2008, COFINA, issued $2,667 million Sales Tax Revenue Bonds Series 2007A and $1,333 million Series 2007B, $499.9 million Series 2007C and $737 million Series 2008A, respectively, to refinance certain series of the Act 164 PFC Bonds outstanding and the corresponding notes issued by PFC by certain series of the Commonwealth's agencies and component units. The Series 2007A, B, C, and 2008A proceeds were deposited in escrow with the Bank of New York/Mellon as master escrow agent to pay interest for appropriation bonds through February 2011.

On October 21, 2008, PFC requested the trustee to restructure certain escrow funds. The funds had been established on July 31, 2007, for the refunding of interest on certain of PFC's taxable bonds (taxable Refunded Interest Only Escrow Requirements). After the escrow fund had been originally established, a portion of the outstanding principal of the bonds, which were the basis for the calculation of the Taxable Refunded Interest Only Escrow Requirements, was extinguished with the proceeds of bonds issued by COFINA. In addition, all the maturities of the PFC Series 2000B Bonds held in escrow were also paid on December 1, 2008. The reduction of principal as described, decreased the Taxable Interest Only Escrow Requirements, and as such, PFC instructed the trustee to restructure the escrows. The restructuring analysis provided approximately $158 million of which approximately $78 million were received by COFINA and approximately $80 million were received by the Commonwealth. In addition, COFINA received approximately $17 million in contributions from PFC. Amounts received were recorded as a special item in the statement of activities during the year ended June 30, 2009.

The outstanding balance of the Commonwealth appropriation bonds comprises the following obligations (expressed in thousands):

Act No. 164 restructuring	$ 497,941
Health Facilities and Services Administration	39,004
Office for the Improvement of Public Schools of Puerto Rico	80,050
Puerto Rico Maritime Shipping Authority (PRMSA)	101,210
Property tax settlement	24,979
Total Commonwealth appropriation bonds, net	$ 743,184

Act No. 164 Restructuring

On December 17, 2001, Act No. 164 was approved, which authorized certain government agencies and discretely presented component units to refund approximately $2.4 billion of their outstanding obligations with GDB, for which no repayment source existed, over a period not exceeding 30 years, and to be repaid with annual Commonwealth appropriations not to exceed $225 million. This refunding was done with Commonwealth appropriation bonds through several series issued by PFC during the period between December 2001 and June 2002.

Approximately $498 million of the aforementioned outstanding obligations belonged to the primary government, predominantly the Department of Health of the Commonwealth (health reform financing and other costs for approximately $1.1 billion) and the Department of the Treasury of the Commonwealth (the fiscal year 2001 deficit financing of $268 million and the obligation assumed for defective tax liens in the amount of approximately $132 million). The new combined bonds balance of the Act No. 164 restructuring bears interest at rates ranging from 1.25% to 6.25%. Debt service requirements in future years are as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2012	$ -	$ 27,725	$ 27,725
2013	-	22,488	22,488
2014	26,196	25,411	51,607
2015	26,284	24,683	50,967
2016	29,069	22,199	51,268
2017–2021	91,631	99,208	190,839
2022–2026	74,164	63,809	137,973
2027–2031	271,151	36,796	307,947
Total	518,495	$ 322,319	$ 840,814
Plus unamortized premium	8,289		
Less deferred refunding loss	(28,843)		
Total	$ 497,941		

Health Facilities and Services Administration

As of July 1, 1999, approximately $595 million (including unpaid interest) of a promissory note of the Health Facilities and Services Administration (HFSA) due to GDB was transferred to the Department of Health of the Commonwealth and restructured through Commonwealth appropriation bonds. The bonds bear interest at rates ranging between 6.00% and 6.10%. Principal and interest on the bonds are payable solely from legislative appropriations to be made pursuant to Act No. 223 of August 9, 1998. Act No. 223 provides that OMB shall include in the annual budget of the Commonwealth an amount equal to $56.5 million for the fiscal year 1998-99, and for the next succeeding 15 fiscal years the amount necessary to pay the principal of and interest on the bonds, up to a maximum annual amount of $57.7 million.

Debt service requirements in future years are as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2012	$ -	$ 2,040	$ 2,040
2013	-	2,040	2,040
2014	10,665	1,720	12,385
2015	11,315	1,061	12,376
2016	12,025	361	12,386
2017	4,999	9,316	14,315
Total	$ 39,004	$ 16,538	$ 55,542

Office for the Improvement of Public Schools of Puerto Rico

Previous public schools infrastructure improvement loans provided additional funds for major repairs and improvements to the public schools in Puerto Rico. This activity is administered by the Office for the Improvement of the Public Schools of Puerto Rico (OIPS), included as part of the general fund of the primary government. These loans were refunded originally through the issuance of Commonwealth appropriation bonds pursuant to Act No. 85 of June 13, 1998 (Act 85). The new combined bonds bear interest at rates ranging from 4.10% to 5.75%. As of June 30, 2011, approximately $80 million was outstanding. Debt service requirements in future years are as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2012	$ -	$ 5,262	$ 5,262
2013	6,100	3,651	9,751
2014	-	3,532	3,532
2015	-	3,532	3,532
2016	-	3,532	3,532
2017–2021	8,535	17,122	25,657
2022–2026	73,990	12,729	86,719
Total	88,625	$ 49,360	$ 137,985
Plus unamortized premium	1,967		
Less deferred refunding loss	(10,542)		
Total	$ 80,050		

Puerto Rico Maritime Shipping Authority

A promissory note payable owed by PRMSA to GDB was assumed by the Commonwealth in connection with the sale of the maritime operations of PRMSA. Commonwealth appropriation bonds were issued to refund this liability. The new combined bonds balance bears interest at a variable rate ranging from 3.65% to 5.80%. Debt service requirements in future years are as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2012	$ -	$ 5,810	$ 5,810
2013	-	5,810	5,810
2014	12,945	5,314	18,259
2015	12,415	4,692	17,107
2016	13,060	4,038	17,098
2017–2021	49,085	10,924	60,009
2022–2026	16,690	4,873	21,563
2027–2031	10,075	1,263	11,338
Total	114,270	$ 42,724	$ 156,994
Less unamortized discount	(115)		
Less deferred refunding loss	(12,945)		
Total	$ 101,210		

Property Tax Settlement

During fiscal year 1996, the Commonwealth refinanced the liability for the settlement of the property taxes owed to the municipalities of Puerto Rico. Commonwealth appropriation bonds were issued to refund this liability. The new combined bonds balance bears interest at rates ranging from 4.10% to 4.90%. Debt service requirements in future years are as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2014	$ 11,469	$ 6,922	$ 18,391
2015	10,779	7,631	18,410
Total	22,248	$ 14,553	$ 36,801
Plus accreted discount	9,647		
Less deferred charges arising from debt refunding	(6,916)		
Total	$ 24,979		

(e) Advance Refunding, Defeased Bonds, and Refunding of Commonwealth Appropriation Bonds

In prior years, the Commonwealth defeased certain general obligation and other bonds by placing the proceeds of the bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust's account assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2011, approximately $1.3 billion of bonds outstanding from prior years advance refunding are considered defeased.

In addition, PBA has defeased certain revenue bonds in prior years by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old debts. Accordingly, the trust's account assets and liabilities for the defeased bonds are not included in the statement of net assets (deficit). As of June 30, 2011, approximately $742 million of PBA bonds are considered defeased.

(f) Notes Payable to Component Units and Others

The Commonwealth has entered into various short-term line of credit agreements with GDB consisting of the following at June 30, 2011 (expressed in thousands):

Agency	Purpose	Interest Rate	Line of Credit	Outstanding Balance
Department of the Treasury	To fund information technology project	125 bp over GDB's commercial paper rate	$44,868	$14,469
Department of the Treasury	Purchase of mobile X-ray machines	125 bp over 3 month LIBOR	12,000	2,613
Department of Health	To cover diagnose and treatment costs	125 bp over 3 month LIBOR	8,000	5,018
Department of Housing	To reimburse to the Puerto Rico Housing Finance Authority, a blended component unit of GDB, for certain advances to the Santurce Revitalization Project	125 bp over 3 months LIBOR	19,282	10,079
			$84,150	$32,179

The Commonwealth financed certain other long-term liabilities through GDB and other component units. The outstanding balance at June 30, 2011 on the financing provided by GDB comprises the following, all within governmental activities (expressed in thousands):

GDB

Department of the Treasury	$ 662,734
Public Buildings Authority	400,315
Office of Management and Budget	117,524
Department of Education	113,524
Department of Transportation and Public Works	80,756
Department of Agriculture	65,439
Department of Justice	52,976
Department of Health	40,739
Police Department	33,699
Department of Housing	24,335
Puerto Rico Court Administration Office	21,584
Office of the Superintendent of the Capitol	16,484
Department of Recreation and Sports	9,755
Correction Administration	8,913
Notes payable to GDB	$ 1,648,777

Other Components Units:

Note payable to UPR	$ 56,318
Note payable to PREPA	12,600
Notes payable to other component units	$ 68,918

As of June 30, 2011, the Department of the Treasury of the Commonwealth has entered into various line of credit agreements with GDB amounting to a maximum of $1.9 billion for different purposes as presented in the following table. The purpose, interest rate, maturity date, and amount outstanding under each individual agreement at June 30, 2011 consist of the following (expressed in thousands):

Purpose	Interest Rate	Maturity	Line of Credit	Outstanding Balance
To finance payroll and operational expenditures of the Commonwealth for fiscal year 2006	5.50 %	June 30, 2036	$ 741,000	$227,122
Resources to meet appropriations in annual budget of the Commonwealth (fiscal year 2004) and federal programs expenditures	125 bp over 3 month LIBOR	June 30, 2018	640,000	148,123
Capital improvements projects of agencies and municipalities	150 bp over GDB's commercial paper rate	June 30, 2019	130,000	88,877
To pay agencies debt	125 bp over 3 month LIBOR	September 30, 2012	100,000	74,062
To finance capital improvements projects for several government agencies	7 %	June 30, 2018	105,000	73,122
Resources to cover the operational needs of the catastrophic disasters fund, (fiscal year 2004) of the Puerto Rico Health Insurance Administration and the Department of the Family	125 bp over 3 month LIBOR	September 30, 2015	79,930	43,827
Acquisition of Salinas Correctional Facilities	125 bp over 3 month LIBOR	June 30, 2018	15,000	7,597
To repay an advance made under a liquidity facility, due to a mandatory tender of the Puerto Rico Public Improvement Refunding Bonds, Series 2007 A-3	125 bp over Prime Rate	June 30, 2040	100,000	4
Total			$1,910,930	$662,734

On April 27, 2009, GDB provided to the Public Buildings Authority (PBA) a non-revolving credit facility in the maximum principal amount of $98.5 million bearing interest on the unpaid principal amount of each advance at a fluctuating annual rate equal to 1.50% over and above the Prime Rate or at such other rate determined by GDB. The proceeds of the facility were used exclusively for the payment of certain amounts due by PBA to its suppliers and service providers. All such payments shall be subject to the prior approval of GDB and shall be disbursed directly to the suppliers and service providers. The loan and the accrued interest are due on June 30, 2011 and will be payable from all funds generated by PBA and any other properties owned and pledged to GDB. As of June 30, 2011, $4.1 million were outstanding. PBA also maintains a $75 million line-of-credit agreement with GDB the proceeds of which were used for payment of operational expenses. Borrowings under this line of credit agreement bear interest at a fixed rate of 7% and are payable upon maturity on June 30, 2018. As of June 30, 2011, $69 million were outstanding. The line of credit agreement is collateralized with two of the PBA's properties. Payments of principal and interest will be provided from appropriations from the Commonwealth's general budget pursuant to the provisions of Resolution No. 387 of December 21, 2005. During the fiscal year ended June 30, 2011, payments of principal and interest due for $875,924 and $5,000,000, respectively, were made by COFINA. In addition, on May 2, 2008, PBA executed two Loan Agreements with GDB for the interim financing of its Capital Improvement Program in an amount not to exceed $226 million, bearing interest at 6%. The loans and the accrued interest are due on October 31, 2011 and will be

repaid from the proceeds of the next bond issuance of PBA divided into $209 million on a tax-exempt basis and $16.9 million on a taxable basis. As of June 30, 2011, $133.9 million were outstanding. On July 9, 2010, PBA executed a loan agreement with GDB for the financing of the interest component of certain outstanding revenue and revenue refunding bonds of PBA in an aggregate principal amount not to exceed $36.9 million. The loan shall mature on such date as GDB may determine but in no event later than June 30, 2012 and will be payable from the proceeds of the issuance of revenue bonds to be issued by PBA. The loan bears interest at a rate of interest per annum equal to the Prime Rate plus 150 basis points with a minimum interest rate of 6%. On September 22, 2010 and November 29, 2010, the loan agreement was amended to increase the amount of the loan to $49.2 million and $147.8 million, respectively. As of June 30, 2011, $147.9 million were outstanding. On August 18, 2010, GDB provided to PBA a non-revolving credit facility in the maximum principal amount of $93.6 million bearing interest at a fluctuating annual rate equal to 1.50% over Prime Rate or such other rate determined by GDB, with a minimum interest rate of 6%. The proceeds of the credit facility will be used for construction projects development. The credit facility is due on June 30, 2012 and will be payable from the proceeds of a future bond issuance of PBA. As of June 30, 2011, $14.5 million were outstanding. An additional line-of-credit was entered into between GDB and PBA on October 21, 2010, for the financing of the projects cost, under the Inter-Departmental Agreement, until such time as PBA issues the Qualified School Construction Bonds (the QSCBs) in an aggregate principal amount not to exceed $160 million. The outstanding principal of and the interest on credit facility will mature on August 31, 2011 and will be payable from the proceeds of the issuance of the QSCBs or from any other funds available to PBA. The credit facility bears interest at a fluctuating annual rate of 1.50% over Prime Rate, with a minimum interest rate of 6% or a maximum interest rate of 12%. On April 4, 2011, the loan agreement was amended to increase the loan amount to $721.6 million. As of June 30, 2011, $30.9 million were outstanding.

On June 5, 2006, the Office of Management and Budget entered into a $150 million line of credit agreement with GDB to provide economic assistance for disasters and emergencies. Borrowings under this line of credit agreement bear interest at variable rates based on 125 basis points over three month LIBOR and are payable upon the maturity of the line of credit on September 30, 2011. As of June 30, 2011, $117.5 million were outstanding.

On February 6, 2003, the Department of Education of the Commonwealth entered into a $25 million line of credit agreement with GDB for the purchase of equipment and for school improvements. Borrowings under this line of credit agreement bear interest at variable rates based on 125 basis points over three month LIBOR and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2011, $4.9 million was outstanding. On August 4, 2002, the Department of Education of the Commonwealth entered into an additional $140 million line of credit agreement with GDB in order to reimburse the Department of the Treasury of the Commonwealth for payments made on their behalf for state funds used to fund federal program expenditures. Borrowings under this line of credit agreement bear interest at variable rates based on 125 basis points over three month LIBOR and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2011, $108.6 million still remains outstanding related to the borrowing. The line of credit is expected to be repaid upon collection of the federal grants.

The Department of Transportation and Public Works of the Commonwealth entered into four line-of-credit agreements with GDB amounting to $118 million for improvement and maintenance of roads around the island. Borrowings under these lines of credit bear interest at a 7% rate and are payable upon maturity of the line of credit on June 30, 2018. As of June 30, 2011, $80.8 million was outstanding.

On August 9, 1999, the Department of Agriculture of the Commonwealth entered into a $125 million non-revolving line-of-credit agreement with GDB to provide economic assistance to the agricultural sector, which sustained severe damages caused by Hurricane Georges in 1998. As of February 24, 2004, the line-of-credit increased by $50 million resulting in a total amount of $175 million. Borrowings under this line-of-credit agreement bear interest at variable rates based on 125 basis points over three-month LIBOR; starting on October 1, 2010 the outstanding balance will bear interest at a fixed rate of 7% and is payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2011, $65.4 million were outstanding.

On October 2, 2002, the Department of Justice of the Commonwealth entered into a $90 million line of credit agreement with GDB for the financing of 12 public improvement projects for the Municipality of Ponce pursuant to a court order. Borrowings under this line of credit agreement bear interest at variable rates and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2011, $19 million related to this line of credit agreement were outstanding. On August 8, 2005, the Department of Justice of the Commonwealth entered into an additional agreement (amendment) to increase line-of-credit of $90 million to $110 million to cover various projects in Ponce. Borrowings under this line of credit agreement bear interest at 7% rate and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2011, this line of credit agreement amounted to $34.0 million.

In August 2003, the Department of Health of the Commonwealth entered into a $30 million line of credit agreement with GDB in order to repay certain outstanding debts that the PRMeSA had with other agencies and suppliers. Borrowings under this line of credit agreement bear interest at a fixed rate of 7% and are payable upon maturity of the line of credit on June 30, 2018. As of June 30, 2011, $22.7 million related to this line of credit agreement were outstanding. On November 8, 2004, the Department of Health entered into an additional $58.5 million line of credit agreement with GDB for the financing of a project of the Department of Health and PRMeSA. Borrowings under this line of credit agreement bear interest at variable rates based on 150 basis points over GDB's commercial paper rate and are payable upon the maturity of the line of credit on October 31, 2014. As of June 30, 2011, the outstanding balance of this line of credit agreement amounted to $18 million.

On July 29, 2004, the Police Department of the Commonwealth entered into a $48 million line of credit agreement with GDB for the acquisition of vehicles and high technology equipment. Borrowings under this line of credit agreement bear interest based on the All Inclusive Total Interest Cost of the Medium Term Notes, Series B, plus a mark-up of 1.25% and are payable upon the maturity of the line of credit on September 30, 2014. The outstanding balance of this line of credit agreement amounted to $33.7 million at June 30, 2011.

On December 3, 2007, the Department of Housing of the Commonwealth entered into a $30 million line-of-credit agreement with GDB for the purchase of Juan C. Cordero Dávila building. Borrowings under this line of credit agreement bear interest based on .75 basis points over three month LIBOR and are payable upon maturity of the line of credit on February 28, 2038. As of June 30, 2011, $24.3 million related to this line of credit agreement were outstanding.

On May 7, 2001, the Puerto Rico Court Administration Office (the "Office") entered into a $49.4 million nonrevolving line of credit agreement with GDB for operating purposes. Borrowings under this line of credit agreement bear interest at a variable rate of three month LIBOR plus 1%, not to exceed 8%. The Office must deposit $6 million a year, from the total fees collected on the filing of civil cases, in a special fund created by the Department of the Treasury of the Commonwealth, which is pledged for repayment until July 31, 2015. As of June 30, 2011, approximately $21.6 million remains outstanding.

On February 15, 2002, the Office of the Superintendent of the Capitol (Superintendent) entered into a $35 million line of credit agreement with GDB for the Office of the Superintendent of the Capitol parking's construction. Borrowings under this line of credit agreement bear interest at a fixed rate of 7% and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2011, $16.5 million remained outstanding from the line of credit agreement.

On January 18, 2005, the Department of Recreation and Sports of the Commonwealth (DRS) entered into a $17.2 million line of credit agreement with GDB for the development of a series of recreational projects at different municipalities. Borrowings under this line of credit agreement bear interest based on 150 basis points over GDB's commercial paper rate and are payable upon the maturity of the line of credit on June 30, 2018. The proceeds of the line of credit are used for development and improvement of recreational facilities. As of June 30, 2011, $0.5 million were outstanding. Also, on February 9, 2004, DRS entered into a $16 million line of credit agreement with GDB for the development and improvement of recreational facilities. Borrowings under this line of credit agreement bear interest on the unpaid principal amount of each advance at a fixed rate of 7% and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2011, $0.5 million were outstanding. An additional line-of-credit was entered into between GDB and the DRS in the maximum principal amount of $17.6 million bearing interest on the unpaid principal amount of each advance at a fixed rate of 7% and are payable upon the maturity of the line of credit on June 30, 2018. The line-of-credit proceeds are used for development and improvement of recreational facilities. As of June 30, 2011, $8.7 million were outstanding.

On May 12, 2004, the Correction Administration of the Commonwealth ("Correction Administration") entered into a $60 million line-of-credit agreement with GDB for improvements to certain correctional facilities. Borrowings under this line-of-credit agreement bear interest at fixed 7% rate and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2011, $3.8 million were outstanding. In addition, on November 24, 2010, the Correction Administration entered into an $80 million line-of-credit agreement with GDB for the construction of a new correctional medical center. Borrowings under this line-of-credit agreement bear interest at a variable rate equal to 1.50% over Prime Rate with a minimum rate of 6% and a maximum rate of 12%, upon the maturity of the line of credit on January 31, 2013. As of June 30, 2011, $5.1 million were outstanding.

As of July 1, 1999 debts of approximately $102 million payable to UPR, a discretely presented component unit, in relation to outstanding noninterest bearing debt accumulated in prior years by HFSA were transferred to the Commonwealth. On September 7, 2004, additional debts of approximately $71.2 million were also restructured and combined with the previous financing arrangement. As of June 30, 2011, $17.7 million remains outstanding of this arrangement. The Commonwealth has also agreed to pay the UPR $20 million related to Commonwealth legislative scholarships which are payable in annual installments of $5 million. In addition, during the fiscal year 2010, the OMB and the UPR signed an intra-agency agreement amounting to $36 million to pay for appropriations for fiscal years 2007 and 2008. In April 2011 the OMB settled this intra-agency agreement for $18.6 million to be payable during fiscal year 2012. Future amounts required to pay principal balances at June 30, 2011 are expected to be as follows (expressed in thousands):

Year Ending June 30	
2012	$ 31,599
2013	13,000
2014	6,719
2015	5,000
Total	$ 56,318

The noninterest bearing note payable to PREPA, a discretely presented component unit, consists of a fuel adjustment subsidy due by the Commonwealth and the refinancing during 2004 of other accumulated debt by the Commonwealth's agencies with PREPA. The outstanding balance of $12.6 million at June 30, 2011 is expected to be paid in installments of $6.3 million approximately until settlement.

With the exception of a few lines of credit having a defined source of repayment, the remaining lines of credit described above used Commonwealth appropriations as the source of repayment until June 30, 2007. Beginning in fiscal year 2008, these lines of credit have been repaid or refunded with a combination of Commonwealth appropriations and COFINA under the mechanism described in Note 15(d).

(g) Compensated Absences

Long-term debt includes approximately $1.4 billion of accrued vacation and sick leave benefits at June 30, 2011. The total liability of compensated absences recorded as governmental and business type activities amounted to $1.4 billion and $4.8 million, respectively.

(h) Net Pension Obligation

The amount reported as net pension obligation of approximately $9.3 billion represents the cumulative amount owed by the Commonwealth for the unfunded prior years' actuarially required pension contributions to the ERS, JRS, and the TRS (collectively known as the pension plans) (see note 20). The net pension obligation has been recorded as a liability in governmental activities in the accompanying statement of net assets (deficit).

(i) Net Other Postemployment Benefits Obligation

The amount reported as net other postemployment benefits obligation of approximately $174.9 million represents the cumulative amount owed by the Commonwealth for the unfunded

prior years' actuarially required other postemployment benefit contributions to the ERS, JRS, and the TRS (collectively known as the pension plans) (see Note 21). The net other postemployment benefits obligation has been recorded as a liability in governmental activities in the accompanying statement of net assets (deficit).

(j) Unpaid Lottery Prizes

The amount reported as unpaid lottery prizes represents the lottery prizes payable of the Lottery of Puerto Rico (commonly known as "Traditional Lottery") and the Additional Lottery System (commonly known as "Lotto") jointly known as the Lottery Systems at June 30, 2011. The minimum annual payments related to unpaid awards of both lotteries are as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2012	$ 52,103	$ 9,209	$ 61,312
2013	24,869	9,765	34,634
2014	21,921	10,094	32,015
2015	18,696	9,887	28,583
2016	16,535	9,947	26,482
2017–2021	53,182	42,289	95,471
2022–2026	21,319	23,268	44,587
2027–2030	4,640	4,885	9,525
Total	$ 213,265	$ 119,344	$ 332,609

The minimum annual payments related to unpaid awards of Lotto excluded unclaimed prizes liability of approximately $5.2 million at June 30, 2011, which is reported as prizes payable — current portion.

The liability for unpaid lottery prizes is reported in the accompanying statement of net assets (deficit) – business – type activities and statement of net assets (deficit) — proprietary funds.

(k) Claims Liability for Insurance Benefits

The Commonwealth provides unemployment compensation, no occupational disability, and drivers' insurance coverage to public and private employees through various insurance programs administered by the Department of Labor and Human Resources of the Commonwealth. These insurance programs cover workers against unemployment, temporary disability, or death because of work or employment related accidents or because of illness suffered as consequence of their employment.

The Commonwealth establishes liabilities for incurred but unpaid benefits and benefit adjustment expenses based on the ultimate cost of settling the benefits. Insurance benefit claim liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The liability for insurance benefits claims is reported as a current liability in the accompanying statement of net assets (deficit) business type activities — and statement of net assets (deficit) proprietary funds. The liability as of June 30, 2011, amounts to $86 million.

(l) Obligations under Capital Lease Arrangements

The Commonwealth is obligated under capital leases with third parties that expire through 2041 for land, buildings, and equipment.

The present value of future minimum capital lease payments at June 30, 2011 reported in the accompanying government wide statement of net assets (deficit) is as follows (expressed in thousands):

Year Ending June 30	
2012	$ 23,054
2013	26,303
2014	22,407
2015	22,135
2016	29,580
2017–2021	103,787
2022–2026	101,015
2027–2031	96,411
2032–2036	50,773
2037–2041	5,971
Total future minimum lease payments	481,436
Less amount representing interest costs	(251,862)
Present value of minimum lease payments	$ 229,574

Leased land, buildings, and equipment under capital leases in capital assets at June 30, 2011, include the following (expressed in thousands):

Land	$ 7,960
Buildings	254,886
Equipment	7,461
Subtotal	270,307
Less accumulated amortization	(54,700)
Total	$ 215,607

Amortization charge applicable to capital leases and included within depreciation expense of capital assets amounted to $7.2 million in 2011.

The Commonwealth is also committed under numerous operating leases, covering land, office facilities, and equipment. Rental expenditure within the governmental funds for the year ended June 30, 2011 under such operating leases was approximately $223 million.

The future minimum lease payments for these leases are as follows (expressed in thousands):

Year Ending June 30	
2012	$ 98,536
2013	81,042
2014	55,949
2015	35,456
2016	19,063
2017–2021	47,684
2022–2026	23,663
2027–2031	11,798
2032–2036	4,048
Total future minimum lease payments	$ 377,239

(m) Termination Benefits Payable

Voluntary Termination Benefits

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides early retirement benefits or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70 applies to agencies and component units whose budgets are funded in whole or in part by the General Fund.

Act No. 70 established that early retirement benefits ("early retirement program") will be provided to eligible employees that have completed between 15 to 29 years of credited services in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50% of each employee's salary, as defined. Pursuant to Act No. 70, the Commonwealth, as employer, will continue making the applicable employer contributions to the Retirement System, as well as covering the annuity payments to the employees opting for the early retirement, until both the years of service and age requirements for full vesting would have occurred, at which time the applicable Retirement System will continue making the annuity payments.

Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System ("incentivized resignation program") or who have at least 30 years of credited service in the Retirement System and the age for retirement or who have the age for retirement ("incentivized retirement program"). Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years.

Additionally, eligible employees that choose to participate in the early retirement program or in the incentivized resignation program are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Commonwealth.

In addition, Act No. 70 allows certain component units of the Commonwealth that operate with their own resources to implement a similar program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. The benefits and the requirements are the same provided by Act No. 70, except as follows: in the early retirement benefit program, the component unit will make the employee and the employer contributions to the Retirement System and pay the corresponding pension until the employee

complies with the requirements of age and 30 years of credited service in the Retirement System; and in the incentivized retirement program, the component unit will make the employee and the employer contributions to the Retirement System for a five year period.

The following table summarized the financial impact resulting for the benefits granted to participants of Act No. 70 and similar programs in the government wide financial statements as of and for the year ended June 30, 2011 (expressed in thousands):

	Primary Government			
Accrued Voluntary Termination	**Governmental Activities**	**Business-type Activities**	**Totals Primary Government**	**Component Units**
Benefits as of June 30, 2011:				
Current liabilities	$ 44,328	$ 470	$ 44,798	$ 32,374
Noncurrent liabilities	297,784	2,171	299,955	134,745
Total	$ 342,112	$ 2,641	$ 344,753	$ 167,119
Expenses for the Year Ended June 30, 2011	$ 362,136	$ 2,910	$ 365,046	$ 177,300

At June 30, 2011, unpaid long-term benefits granted on Act No. 70 were discounted at interest rates that range from 1.85% to 3.29% at the primary government level and from 0.30% to 3.41% at the component units level.

By Act No. 70, the General Fund of the Commonwealth must appropriate on an annual basis funds necessary to cover the annual payments of Act No. 70 on certain components units. Discounted termination benefits payable of these component units amounted to approximately $54.3 million as of June 30, 2011.

Involuntary Termination Benefits

The Commonwealth has a current liability of approximately $29,072,000 as of June 30, 2011 for unpaid involuntary termination benefits occurred in prior years.

(n) Other Long-term Liabilities

The remaining long-term liabilities of governmental activities at June 30, 2011 include (expressed in thousands):

Liability for legal claims and judgments (Note 19)	$ 1,380,711
Liability for salary increases granted through legislation	344,412
Liability to U.S. Army Corps of Engineers (Note 13)	224,942
Employees' Christmas bonus	139,474
Liability for federal cost disallowances (Note 19)	118,943
Liability to the Puerto Rico System of Annuities and Pensions for Teachers	43,056
Other	73,925
Total	$ 2,325,463

The Commonwealth, through laws dating back to 1954, has granted eligible police agents, various salary-related benefits such as annual salary increases, awards for years of service, and monetary benefits awarded for special assignments, among others. As of June 30, 2011, the Commonwealth's liability related to these salary-related benefits amounted to approximately $344 million.

As described in Note 13, the Commonwealth has a debt obligation with the U.S. Army Corps of Engineers in relation to its estimated allocated share of the construction costs associated with the Cerrillos Dam and Reservoir Project. Late in April 2011, the Commonwealth received a final debt agreement from the U.S. Army Corps of Engineers establishing a repayment schedule for its allocated share of the construction costs associated with the Cerrillos Dam and Reservoir Project, amounting to $214 million, excluding those costs for items built for recreational purposes. Unpaid allocated share of these construction costs amounted to $212 million, plus accrued interest of $147 million, at June 30, 2011 and it is payable on annual installment payments over a 35 year period. The expected maturity date of this debt obligation is June 5, 2046. Due payments of principal and interest on this debt obligation, including late fees, amounted to $25 million and $146 million, respectively, at June 30, 2011 and were recorded in the accompanying Governmental Funds- General Fund's financial statements as of and for the year ended June 30, 2011. This debt obligation bears interest at 6.063%. Debt service requirements on this debt obligation with fixed maturities at June 30, 2011 were as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2012	$ 26,734	$ 157,023	$ 183,757
2013	1,752	11,210	12,962
2014	1,858	11,104	12,962
2015	1,971	10,991	12,962
2016	2,090	10,872	12,962
2017–2021	12,513	52,296	64,809
2022–2026	16,794	48,014	64,808
2027–2031	22,542	42,267	64,809
2032–2036	30,256	34,553	64,809
2037–2041	40,609	24,200	64,809
2032–2046	54,506	10,303	64,809
Total	$ 211,625	$ 412,833	$ 624,458

In addition, the Commonwealth has a debt obligation of $13.3 million with the U.S. Army Corps of Engineers in relation to its estimated allocated share of the construction costs associated with the recreational part of the Cerrillos Dam and Reservoir Project, including accrued interest of $3 million, at June 30, 2011. The final debt agreement with the U.S. Army Corps of Engineers for the recreational part of the Cerrillos Dam and Reservoir Project has not been finalized, and therefore, terms and conditions could differ from those estimated. The related debt is expected to be payable on annual installment payments over a 35 year period. However, the debt has been presented as a long-term payable after one year in the accompanying statement of net assets (deficit) since the commencement date of repayment has not yet been determined.

(o) Fiduciary Funds

On February 27, 2007, the ERS's administration and GDB, acting as ERS's fiscal agent (the "Fiscal Agent"), presented to the Board of Trustees, a financial transaction for the issuance of pension

funding bonds in order to reduce the ERS's unfunded actuarial accrued liability. The ERS authorized the issuance of one or more series of bonds (the "Bonds") in order to increase the funds available to pay pension benefits to certain of its beneficiaries and reduce its unfunded accrued actuarial pension liability. The ERS pledged future employer contributions to the payment of the Bonds, invested the proceeds of the Bonds, and used these investments and the earnings thereon to provide pension benefits to its beneficiaries.

On January 31, 2008, the ERS issued the first series of Bonds, which consisted of approximately $1.6 billion aggregate principal amount of Senior Pension Funding Bonds, Series A (the "Series A Bonds"). On June 2, 2008, the ERS issued the second of such series of Bonds; which consisted of approximately $1,059 million aggregate principal amount of Senior Pension Funding Bonds, Series B (the "Series B Bonds"). Finally, on June 30, 2008, the ERS issued the third and final of such series of Bonds, which consisted of approximately $300 million aggregate principal amount of Senior Pension Funding Bonds, Series C (the "Series C Bonds"). The following is a summary of changes in the bonds payable principal balance (expressed in thousands):

	Balance at June 30, 2010	Additions/ Accretion	Balance at June 30, 2011
5.85% to 6.45% Term Bonds Series A due July 1, 2058	$ 1,595,968	$ 3,287	$ 1,599,255
6.25% to 6.55% Term Bonds Series B due July 1, 2058	1,092,724	18,039	1,110,763
6.15% to 6.50% Term Bonds Series C due July 1, 2043	300,507	165	300,672
Bond discounts	(7,424)	216	(7,208)
Total	$ 2,981,775	$ 21,707	$ 3,003,482

As of June 30, 2011, the outstanding balance of the Bonds is as follows (in thousands):

Description	
Series A Bonds:	
Capital Appreciation Bonds, maturing in 2028, bearing interest at 6.20%	$ 55,485
Term Bonds, maturing in 2023, bearing interest at 5.85%	200,000
Term Bonds, maturing from 2031 through 2038, bearing interest at 6.15%	679,000
Term Bonds, maturing from 2039 through 2042, bearing interest at 6.20%	332,770
Term Bonds, maturing from 2055 through 2058, bearing interest at 6.45%	332,000
Total Series A Bonds outstanding	1,599,255
Series B Bonds:	
Capital Appreciation Bonds, maturing from 2028 through 2030, bearing interest at 6.40%	171,400
Capital Appreciation Bonds, maturing from 2031 through 2034, bearing interest at 6.45%	123,263
Term Bonds, maturing in 2031, bearing interest at 6.25%	117,100
Term Bonds, maturing from 2036 through 2039, bearing interest at 6.30%	270,000
Term Bonds, maturing from 2055 through 2058, bearing interest at 6.55%	429,000
Total Series B Bonds outstanding	1,110,763
Series C Bonds:	
Capital Appreciation Bonds, maturing in 2030, bearing interest at 6.50%	2,672
Term Bonds, maturing in 2028, bearing interest at 6.15%	110,000
Term Bonds, maturing in 2038, bearing interest at 6.25%	45,000
Term Bonds, maturing in 2043, bearing interest at 6.30%	143,000
Total Series C Bonds outstanding	300,672
Total bonds outstanding	3,010,690
Less bonds discount	(7,208)
Bonds payable — net	$ 3,003,482

Series A Bonds — The aggregate principal amount of the Series A Bonds issued amounted to approximately $1,589 million of which $1,544 million were issued as term bonds (the "Series A Term Bonds") and $45 million were issued as capital appreciation bonds ("the Series A Capital Appreciation Bonds"). Interest on the Series A Bonds accrues, or compounds (in the case of the Series A Capital Appreciation Bonds), from their date of delivery. Interest in the Series A Term Bonds are payable monthly on the first day of each month, commencing on March 1, 2008. Interest on the Series A Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Capital Appreciation Bonds on each January 1 and July 1, commencing on July 1, 2008 (Compounding Dates), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The Series A Bonds are subject to redemption at the option of the ERS from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series A Capital Appreciation Bonds, the accreted amount) of the Series A Bonds, plus accrued interest to the redemption date, and without premium.

Series B Bonds — The aggregate principal amount of the Series B Bonds amounted to approximately $1,059 million of which $816 million were issued as term bonds (the "Series B Term Bonds") and $243 million were issued as capital appreciation bonds (the "Series B Capital Appreciation Bonds"). Interest on the Series B Bonds accrues, or compounds (in the case of the Series B Capital Appreciation Bonds), from their date of delivery. Interest in the Series B Term Bonds are payable monthly on the first day of each month, commencing on July 1, 2008. Interest on the Series B Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Series B Capital Appreciation Bonds on each January 1 and July 1, commencing on July 1, 2008 (Compounding Dates), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The Series B Bonds are subject to redemption at the option of the ERS from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series B Capital Appreciation Bonds, the accreted amount) of the Series B Bonds, plus accrued interest to the redemption date, and without premium.

Series C Bonds — The aggregate principal amount of the Series C Bonds amounted to approximately $300 million of which $298 million were issued as term bonds (the "Series C Term Bonds") and $2 million were issued as capital appreciation bonds (the "Series C Capital Appreciation Bonds"). Interest on the Series C Bonds accrues, or compounds (in the case of the Series C Capital Appreciation Bonds), from their date of delivery. Interest in the Series C Term Bonds are payable monthly on the first day of each month, commencing on August 1, 2008. Interest on the Series C Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Series C Capital Appreciation Bonds on each January 1 and July 1, commencing on July 1, 2009 (Compounding Dates), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The Series C Bonds are subject to redemption at the option of the ERS from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series C Capital Appreciation Bonds, the accreted amount) of the Series C Bonds, plus accrued interest to the redemption date, and without premium.

Debt service requirements in future years on pension funding bonds as of June 30, 2011 are as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2012	$ -	$ 166,519	$ 166,519
2013	-	166,519	166,519
2014	-	166,519	166,519
2015	-	166,519	166,519
2016	-	166,519	166,519
2017–2021	-	666,076	666,076
2022–2026	200,000	809,195	1,009,195
2027–2031	441,213	760,565	1,201,778
2032–2036	154,666	708,935	863,601
2037–2041	1,210,220	526,825	1,737,045
2042–2046	180,550	254,552	435,102
2047–2051	-	247,568	247,568
2052–2056	362,800	247,568	610,368
2057–2058	398,200	72,707	470,907
	2,947,649	$ 5,126,586	$ 8,074,235
Plus accreted interest	63,041		
Less unamortized discount	(7,208)		
Total	$ 3,003,482		

Pledge of Employer Contributions Pursuant to Security Agreement

The ERS entered into a Security Agreement with the Fiscal Agent for the benefit of the bondholders, pursuant to which the ERS pledged to the Fiscal Agent, and granted the Fiscal Agent a security interest in employer contributions made after January 31, 2008, which was the date of issuance of the first series of bonds, and the funds on deposit with the Fiscal Agent under the various accounts established under the Pension Funding Bond Resolution (the "Resolution").

The Resolution and the Security Agreement constitute a contract between the ERS and the Fiscal Agent, on behalf of owners of the bonds. The pledge, covenants and agreements of the ERS set forth in the Resolution and the Security Agreement shall be for the equal benefit, protection and security of the owners of the bonds, regardless of time or times of their issuance or maturity, and shall be of equal rank, without preference, priority or distinction of any of the bonds over any other bond, except as expressly provided in or permitted by the Resolution. The pledge by the ERS funds, which consist of all employer contributions that are made after January 31, 2008, which was the date of issuance of the first series of bonds, in accordance with the Act and amounts on deposit in the different accounts created pursuant to the Resolution for the benefits of the owners of the bonds, is irrevocable so long as any bonds are outstanding under the terms of the Resolution.

(p) Discretely Presented Component Units

Notes and appropriation bonds payable are those liabilities that are paid out of the component units' own resources. These notes and appropriation bonds do not constitute a liability or debt of the primary government.

The outstanding balance of notes payable at June 30, 2011 is as follows (expressed in thousands):

Component Unit	Interest rates	Maturity Through	Balance at June 30, 2010	Additions	Reductions	Balance at June 30, 2011	Amounts Due Within One Year
Government Development Bank for Puerto Rico	2.5%–6.97%	2040	$3,131,756	$3,516,889	$1,377,573	$5,271,072	$ 90,981
Economic Development Bank for Puerto Rico	1.9%-7.23%	2026	456,321	153,104	1,608	607,817	-
Puerto Rico Ports Authority	Variable	2028	570,813	-	15,830	554,983	261,572
Puerto Rico Electric Power Authority	3.25%–4.375%	2023	65,521	150,000	15,020	200,501	166,465
Puerto Rico Trade and Export Company	4.51%–6.48%	2034	197,188	300,372	137,175	360,385	423
Puerto Rico Aqueduct and Sewer Authority	0.0325	2012	244,688	-	2,944	241,744	241,744
University of Puerto Rico	3.25%–5.50%	2014	-	2,683	675	2,008	790
Puerto Rico Industrial Development Company	5.10%–8.45%	2024	83,665	21,435	5,804	99,296	6,569
Puerto Rico Tourism Company	Variable	2013	-	3,042	-	3,042	-
State Insurance Fund Corporation	Variable	2028	43,803	242,000	2,160	283,643	3,992
Puerto Rico Metropolitan Bus Authority	6.68 %	2012	40,410	-	1,577	38,833	38,833
Agricultural Enterprises and Development Administration	Variable	2011	5,604	-	124	5,480	5,480
Puerto Rico Land Authority	Variable	2011	700	-	700	-	-
Total notes payable component units			$4,840,469	$4,389,525	$1,561,190	$7,668,804	$816,849

Debt service requirements on component units' notes payable with fixed maturities at June 30, 2011 were as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2012	$ 816,849	$ 312,217	$1,129,066
2013	634,898	294,879	929,777
2014	661,314	270,881	932,195
2015	1,203,740	223,247	1,426,987
2016	322,914	193,941	516,855
2017-2021	2,648,146	503,141	3,151,287
2022-2026	991,322	147,149	1,138,471
2027-2031	269,239	44,669	313,908
2032-2036	106,091	5,356	111,447
2037-2041	9,359	1,440	10,799
2042-2046	4,932	-	4,932
Total	$7,668,804	$1,996,920	$9,665,724

The table that follows represents debt service payments on a component unit's variable-rate notes payable and the net payments on associated hedging derivative instrument as of June 30, 2011. Although interest rates on variable rate debt and the current reference rate of hedging derivative instrument change over time, the calculations included in the table below are based on the assumption that the variable rate and the current reference rate of the hedging derivative instrument on June 30, 2011 will remain the same for their term.

Year Ending June 30	Variable-Rate Notes Payable Principal	Variable-Rate Notes Payable Interest	Hedging Derivative Instruments, Net	Total
2012	$ 17,258	$ 12,621	$ 15,841	$ 45,720
2013	18,069	12,101	15,195	45,365
2014	18,923	11,509	14,516	44,948
2015	19,821	10,887	13,801	44,509
2016	20,765	10,236	13,050	44,051
2017–2021	119,792	40,257	10,250	170,299
2022–2026	151,907	18,507	-	170,414
2027–2029	45,174	679	-	45,853
Total	$411,709	$116,797	$ 82,653	$611,159

Commonwealth appropriation bonds payable outstanding at June 30, 2011 are as follows (expressed in thousands):

Component Unit	Interest rates	Maturity Through	Balance at June 30, 2010	Additions	Reductions	Balance at June 30, 2011	Amounts Due Within One Year
Puerto Rico Aqueduct and Sewer Authorit	1.25% - 6.15%	2031	$671,549	$ -	$ 7,953	$ 663,596	$ 8,985
Puerto Rico Tourism Company	4.00%–6.15%	2031	60,528	-	101	60,427	-
Land Authority of Puerto Rico	2.25%-5.80%	2031	76,715	-	-	76,715	-
Government Development Bank for Puerto Rico	4.00%–5.25%	2031	4,812	-	-	4,812	-
Puerto Rico Infrastructure Financing Authority	0.539 %	2031	4,956	-	-	4,956	-
Solid Waste Authority	1.25%–5.75%	2031	10,689	-	-	10,689	-
Total Commonwealth appropriation bonds — component units			$829,249	$ -	$ 8,054	$ 821,195	$ 8,985

Debt service requirements on component units' appropriation bonds payable with fixed maturities at June 30, 2011 were as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2012	$ 8,985	$ 45,904	$ 54,889
2013	-	34,372	34,372
2014	16,846	34,898	51,744
2015	17,247	35,077	52,324
2016	19,869	32,940	52,809
2017-2021	114,095	147,143	261,238
2022-2026	174,823	117,513	292,336
2027-2031	458,569	61,565	520,134
2032-2036	25,210	467	25,677
Premium, net	35,818	-	35,818
Deferred loss, net	(50,267)	-	(50,267)
Total	$ 821,195	$ 509,879	$ 1,331,074

Bonds payable outstanding at June 30, 2011 are as follows (expressed in thousands):

Component Unit	Interest Rates	Maturity Through	Balance at June 30, 2010	Additions	Reductions	Balance at June 30, 2011	Amount Due Within One Year
Government Development Bank for Puerto Rico	2.6%–6.5%	2039	$ 974,449	$ -	$ 60,496	$ 913,953	$ 68,559
Puerto Rico Infrastructure Financing Authority	Variable	2048	2,998,061	-	1,026,565	1,971,496	32,175
University of Puerto Rico	3%–5.75%	2036	676,465	1,563	34,294	643,734	28,800
Puerto Rico Municipal Finance Authority	3.70%–6.00%	2031	1,197,904	-	93,673	1,104,231	94,775
Puerto Rico Ports Authority	6.50 %	2028	42,666	2,321	-	44,987	-
Puerto Rico Aqueduct and Sewer Authority	4.25%–6.15%	2050	1,909,430	9,132	2,418	1,916,144	3,123
Puerto Rico Highways and Transportation Authority	2.25%–6.50%	2046	6,517,739	12,031	142,809	6,386,961	129,980
Puerto Rico Industrial Development Company	5.10%–6.75%	2029	248,965	413	11,874	237,504	12,680
Puerto Rico Convention Center District Authority	4.00%–5.00%	2037	465,960	-	9,565	456,395	9,040
Puerto Rico Electric Power Authority	2.00%–6.125%	2040	7,495,322	581,870	215,940	7,861,252	361,060
Total bonds payable-component units			$22,526,961	$607,330	$1,597,634	$21,536,657	$740,192

Debt service requirements on component units' bonds payable with fixed maturities at June 30, 2011 were as follows (expressed in thousands):

Year Ending June 30,	Principal	Interest	Total
2012	$ 740,192	$ 1,018,267	$ 1,758,459
2013	614,610	1,000,498	1,615,108
2014	626,235	971,668	1,597,903
2015	629,088	941,755	1,570,843
2016	909,305	920,131	1,829,436
2017-2021	3,507,499	4,063,744	7,571,243
2022-2026	3,988,762	3,135,441	7,124,203
2027-2031	3,624,164	2,238,831	5,862,995
2032-2036	3,158,356	1,422,824	4,581,180
2037-2041	3,079,082	688,218	3,767,300
2042-2046	1,139,148	194,252	1,333,400
2047-2051	287,831	12,088	299,919
Discount, net	(555,834)	-	(555,834)
Unaccreted discount	(1,766)	-	(1,766)
Deferred loss	(210,015)	-	(210,015)
Total	$ 21,536,657	$ 16,607,717	$ 38,144,374

The table that follows represents debt service payments on two component units' variable-rate bonds and the net payments on associated hedging derivative instrument as of June 30, 2011. Although interest rates on variable rate debt and the current reference rate of hedging derivative instrument change over time, the calculations included in the table below are based on the assumption that the variable rate and the current reference rate of the hedging derivative instrument on June 30, 2011 will remain the same for their term.

Year Ending	Variable-Rate Bonds		Hedging Derivative	
June 30,	Principal	Interest	Instruments, Net	Total
2012	$ -	$ 10,461	$ 33,585	$ 44,046
2013	-	10,461	33,596	44,057
2014	-	10,461	33,590	44,051
2015	-	10,461	33,590	44,051
2016	-	10,461	33,595	44,056
2017-2021	104,525	48,442	162,327	315,294
2022-2026	111,630	42,167	143,397	297,194
2027-2031	453,635	27,112	106,253	587,000
2032-2036	-	14,279	65,599	79,878
2037-2041	-	14,279	63,034	77,313
2042-2046	389,060	7,567	17,638	414,265
Total	$ 1,058,850	$ 206,151	$ 726,204	$ 1,991,205

Several component units have defeased certain revenue bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old debts. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the statement of net assets (deficit). As of June 30, 2011, the following bonds are considered defeased (expressed in million):

	Amount Outstanding
Puerto Rico Electric Power Authority	$ 4,100
Puerto Rico Highways and Transportation Authority	2,060
Puerto Rico Municipal Finance Agency	243
Total	$ 6,403

16. GUARANTEED AND APPROPRIATION DEBT

(a) Guaranteed Debt

The Commonwealth may provide guarantees for the repayment of certain borrowings of component units to carry out designated projects. At June 30, 2011, the following component unit debts are guaranteed by the Commonwealth (expressed in thousands):

	Maximum Guarantee	Outstanding Balance
Blended component unit —		
Public Buildings Authority	$ 4,325,000	$ 3,008,202
Discretely presented component units:		
Government Development Bank for Puerto Rico	267,000	267,000
Puerto Rico Aqueduct and Sewer Authority	1,004,234	1,004,234
Port of the Americas Authority	250,000	214,525
Total	$ 5,846,234	$ 4,493,961

The Commonwealth has guaranteed the payments of rentals of its departments, agencies, and component units to PBA, a blended component unit, under various lease agreements executed pursuant to the law that created PBA. Such rental payments include the amounts required by PBA for the payment of principal and interest on the guaranteed debt as authorized by law. The rental commitment to cover principal and interest on the guaranteed debt (excluding premiums and deferred refunding losses) as of June 30, 2011 and for the next five years and thereafter follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2012	$ 81,002	$ 163,671	$ 244,673
2013	78,580	159,823	238,403
2014	74,135	155,261	229,396
2015	77,920	151,199	229,119
2016	81,945	146,911	228,856
2017–2021	384,305	660,011	1,044,316
2022–2026	445,140	540,311	985,451
2027–2031	638,246	390,805	1,029,051
2032–2036	848,371	199,595	1,047,966
2037–2040	359,895	27,616	387,511
	3,069,539	$ 2,595,203	$ 5,664,742
Plus accreted value on bonds outstanding	30,341		
Plus unamortized premium, net	50,996		
Less deferred loss on bonds defeased	(142,674)		
	$ 3,008,202		

Rental income of PBA funds amounted to approximately $213 million during the year ended June 30, 2011, of which $116 million was used to cover debt service obligations.

Adjustable Refunding Bonds — The Commonwealth guarantees the Adjustable Refunding Bonds, Series 1985, issued by GDB, a discretely presented component unit. The outstanding balance of these bonds amounted to $267 million at June 30, 2011. On August 1, 2008, GDB repurchased the $267 million outstanding of its adjustable refunding bond as a result of significant increases in the interest rate of these auction rate bonds. On December 30, 2009, GDB remarketed and reissued these bonds at a fixed rate of 4.75%, maturing on December 1, 2015. These notes are subject to redemption at the option of GDB on or after June 1, 2013 at a redemption price of 101% through May 31, 2014 and 100% after June 1, 2014.

Mortgage Loan Insurance — The Puerto Rico Housing Finance Authority (the “Authority”), a component unit of GDB, provides mortgage credit insurance to low and moderate income families through its mortgage loan insurance program. The Commonwealth guarantees up to $75 million of the principal insured by the mortgage loan insurance program. As of June 30, 2011, the mortgage loan insurance program covered loans aggregating to approximately $566 million. Currently, the Commonwealth has not been called to make any direct payments pursuant to these guarantees.

Land Acquisition and Construction Loans Insurance — The Authority's land acquisition and construction loans insurance program provides mortgage credit insurance to low and moderate income families for the purchase of lots. The program is financed through legislative appropriations and proceeds from mortgage insurance premiums and any other income derived from this insurance activity. Under this program, the Authority is authorized to commit good faith and credit of the Commonwealth up to $5 million for the issuance of debenture bonds.

Act No. 45 of July 28, 1994 states that the Commonwealth guarantees the payment of principal and interest of all outstanding bonds at the date the law was enacted and of all future bond issues to refinance those outstanding bonds of PRASA. Act No. 140 of August 3, 2000 amended Act No. 45 to extend the Commonwealth guarantee to include the principal and interest payments of the Rural Development Serial Bonds and the loans under the State Revolving Fund Program (SRFP) outstanding at the effective date of Act No. 140, and of all future bonds and SRFP loans that may be issued through June 30, 2005. Act No. 386 of September 21, 2004 extended the Commonwealth guarantee to June 30, 2010. Act. No. 75 of July 12, 2010 amended section 1 of Act No. 45 of July 28, 1994 to extend the Commonwealth guarantee over the Rural Development and SRFP's borrowings to June 30, 2015.

United States Department of Agriculture (USDA) Rural Development Program assist PRASA in the financing and construction of aqueduct and sewer facilities in rural areas by purchasing revenue bonds from PRASA, the proceeds of which are used by PRASA to finance such projects. GDB provides entire financing for the projects through short-term lines of credit. As of June 30, 2011, the USDA Rural Development Program Serial Bonds consisted of twenty-four (24) separate series, issued from 1983 through 2009, bearing interest from 4.25% to 5% due in semiannual installments through 2050. The outstanding balance of the USDA Rural Development Program Serial Bonds as of June 30, 2011 was approximately $306 million. The USDA Rural Development Program Serial Bonds are guaranteed by the Commonwealth pursuant to Act No. 140 of August 3, 2000, as amended, and PRASA's net revenue is pledged toward the payment of debt service on the USDA Rural Development Program Serial Bonds.

The Puerto Rico Water Pollution Control Revolving Fund and Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund (the Revolving Funds) were created by Act No. 44 of June 21, 1988 and Act No. 32 of July 7, 1997, respectively, of the Commonwealth. The Puerto Rico Water Pollution Control Revolving Fund is administered, pursuant to Act No. 44 and Act No. 9 of June 21, 1988 and June 18, 1970, respectively, as amended, by Puerto Rico Environmental Quality Board (EQB). The Puerto Rico Safe Drinking water Treatment Revolving Loan Fund is administered, pursuant to Act No. 5 of July 21, 1977, as amended, by Puerto Rico Department of Health (DOH).

Pursuant to these laws, EQB and DOH, on behalf of the Commonwealth, are authorized to enter into operating agreements and capitalization grant agreements with the U.S. Environmental Protection agency (EPA). Puerto Rico Infrastructure Financing Authority (PRIFA), a component unit of the Commonwealth, PRASA, and GDB entered into a memorandum of understanding under which each party has agreed to assume specific responsibilities in connection with the operations of the Revolving Funds.

PRASA has entered into revolving loan agreements to finance certain capital improvements. As of June 30, 2011, PRASA had outstanding approximately $413.4 million under these loan agreements.

The loan agreements are evidenced by promissory notes, which bear interest at a 2% annual rate payable semiannually. Construction loans are required to be paid in full within 20 years of the project completion date. PRASA has pledged its net revenues on a basis subordinate in all respect to

the PRASA's bonds outstanding. If PRASA's pledged revenues are not sufficient for the payment of principal and interest, the payments are guaranteed by the Commonwealth under the Act No. 45 of July 28, 1994, as amended, which obligates the Commonwealth to pay principal and interest on the notes.

On March 18, 2008, PRASA issued approximately $284.8 million of Revenue Refunding Bonds, Series A and B (the "2008 Revenue Refunding Bonds"), (guaranteed by the Commonwealth) to refund PRASA's outstanding Revenue Refunding Bonds, Series 1995 (guaranteed by the Commonwealth) in the amount of approximately $262.8 million. The 2008 Revenue Refunding Bonds bear interest at rates from 5.80% to 6.10% per annum with maturity dates ranging from July 1, 2021 to July 1, 2034. The outstanding balance of the 2008 Revenue Refunding Bonds at June 30, 2011 amounted $284.8 million.

At various times during fiscal years ended 2005 and 2006, the Port of the Americas Authority, a component unit of the Commonwealth, entered into a bond purchase agreements with GDB, whereby GDB agreed to disburse to the Port of the Americas Authority from time to time certain bond principal advances up to a maximum aggregate principal amount of $70 million (Port of the Americas Authority 2005 Series A Bond), $40 million (Port of the Americas Authority 2005 Series B Bond), and $140 million (Port of the Americas Authority 2005 Series C Bond). The proceeds of the bonds were used to finance the cost of development and construction of the Port of the Americas. The aggregate unpaid principal balance of all outstanding bond principal advances shall be payable in full on January 1, 2015 and January 15, 2015. The principal amount may be paid with any of the following: (i) a long-term bond issuance once the projects are completed; (ii) other revenue of the Port of the Americas Authority; (iii) or legislative appropriations as established in Act No. 409 of September 22, 2004 (Act No. 409). Principal and interests payments are guaranteed by the Commonwealth by Act No. 409. As of June 30, 2011, the principal outstanding under those bond purchase agreements amounted to $214.5 million.

(b) Appropriation Debt

At June 30, 2011, the outstanding balances of debt payable by Commonwealth appropriations, as described in note 15(d), which are included in the individual financial statements of the following discretely presented component units, are as follows (expressed in thousands):

Puerto Rico Public Finance Corporation (a blended component unit of GDB)	$ 1,618,284
Puerto Rico Aqueduct and Sewer Authority	677,335
Special Communities Perpetual Trust	367,902
Puerto Rico Convention Center District Authority	147,600
Agricultural Services and Development Administration	99,482
Puerto Rico Industrial Development Company	42,860
Company for the Integral Development of the "Península de Cantera"	20,175
Puerto Rico Housing Finance Authority (a blended component unit of GDB)	13,618
Puerto Rico Solid Waste Authority	10,689
National Parks Company of Puerto Rico	5,963
Government Development Bank for Puerto Rico (GDB)	4,811
Puerto Rico Infrastructure Financing Authority	3,958
Institute of Puerto Rican Culture	1,828
Total	$ 3,014,505

These balances are reported in the statement of net assets (deficit) as Commonwealth appropriation bonds payable and notes payable.

17. CONDUIT DEBT OBLIGATIONS AND NO COMMITMENT DEBT

From time to time, certain of the Commonwealth's component units issue revenue bonds to provide financial assistance to private sector entities for the acquisition and construction of transportation, environmental, industrial, tourism, educational, and commercial facilities, deemed to be in the public interest and that are expected to provide benefits to Puerto Rico. These bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities is retained by the private sector entity served by the bond issuance. Neither the Commonwealth nor any political subdivision or component unit thereof is obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the basic financial statements of the issuing entities. As of June 30, 2011, conduit debt obligations consisted of the following bonds issued by component units (expressed in thousands):

Issuing Entity	Issued Since Inception to Date	Amount Outstanding
Discretely presented component units:		
Puerto Rico Ports Authority	$ 155,410	$ 155,410
Puerto Rico Highways and Transportation Authority	270,000	160,000
Government Development Bank for Puerto Rico	1,147,475	623,785
Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority	6,080,000	1,343,291
Total	$ 7,652,885	$ 2,282,486

(a) Puerto Rico Ports Authority (PRPA)

PRPA issued $39,810,000 in Special Facilities Revenue Bonds under the provisions of a trust agreement dated June 1, 1993, and $115,600,000 in Special Facility Revenue Bonds, under the provisions of a trust agreement dated May 1, 1996, between PRPA and a private bank. The proceeds from the sale of the bonds were used to finance the construction, acquisition of equipment, and improvement of certain facilities at Luis Munoz Marin International Airport, for the benefit of a major private airline. The property is owned by PRPA and leased to the private company. These bonds are limited obligations of PRPA, and are payable solely from and secured by a pledge of certain payments made under the Special Facilities Agreement with the private company and certain other moneys. Neither the credit of the Commonwealth nor that of any of its political subdivisions is pledged for the repayment of these bonds. In addition, the bonds are unconditionally guaranteed by the private company's parent company. Pursuant to the agreements between PRPA and the private company, the private company has agreed to pay amounts sufficient to pay the principal of and premium, if any, and interest on the bonds. The bonds are not collateralized by any property, but are payable solely from certain pledged payments by the private company under the agreement or by the private company's parent company under its unconditional guarantee. The outstanding balance of these bonds amounted to $155 million at June 30, 2011.

(b) Puerto Rico Highways and Transportation Authority (PRHTA)

In March 1992, PRHTA issued Special Facility Revenue Bonds, 1992 Series A, B and C for approximately $117 million for the construction of a toll bridge. The proceeds from the sale of these bonds were transferred by PRHTA to a private entity, Autopistas de Puerto Rico & Compañía, S.E.

("Autopistas"), pursuant to a signed concession agreement for the design, construction, operation and maintenance of the bridge. On October 30, 2003, PRHTA issued Special Facility Revenue Refunding Bonds, 2004 Series A, amounting to approximately $153 million for the purpose of refunding PRHTA's Special Facility Revenue Bonds, 1992 Series A, B, and C, which were issued to fund the construction of the bridge, and to pay the cost of issuance of the bonds. The proceeds from the sale of the bonds were transferred by PRHTA to Autopistas pursuant to a new loan agreement by and between Autopistas and PRHTA. The bonds shall be paid from the proceeds received by Autopistas from the operation of the bridge.

Under certain circumstances, the concession agreement may be terminated and PRHTA is then obligated to assume the Autopista's entire obligation to pay principal of, and interest on, the bonds outstanding, which pursuant to the signed agreement, will be paid from the net revenues of the use and operation of the bridge. PRHTA does not currently expect the concession agreement to terminate. The outstanding bonds (including accrued interest) at June 30, 2011 amounted to approximately $160 million.

(c) Government Development Bank for Puerto Rico (GDB)

In December 2003, GDB, through its Housing Finance Authority, issued $663 million in Capital Fund Program Bonds Series 2003 to lend the proceeds thereof to the Public Housing Administration in its financing of improvements to various public low and moderate income housing projects. These bonds are limited obligations of the Housing Finance Authority, which will be paid solely from an annual allocation of public housing capital funds when received from the U.S. Department of Housing and Urban Development and other funds available under the bond indenture. Accordingly, these bonds are considered no commitment debt and are excluded, along with the related assets held in trust, from the accompanying basic financial statements. The outstanding balance of these bonds amounted to $179.9 million at June 30, 2011.

On August 1, 2008, the Housing Finance Authority issued the Capital Fund Modernization Program Subordinate Bonds amounting to $384,475,000 and the Housing Revenue Bonds amounting to $100,000,000. The proceeds from the issuance were mainly used to finance a loan to a limited liability company and pay the costs of issuance. The $384,475,000 bonds are limited obligations of the Authority, payable primarily by a pledge and assignment of federal housing assistance payments made available by the U.S. Department of Housing and Urban Development, with an outstanding balance of $343.8 million at June 30, 2011. The $100,000,000 bonds are also limited obligations of the Housing Finance Authority, payable from amounts deposited in escrow accounts with a trustee and the proceeds of a loan to be made by the Housing Finance Authority to the limited liability company using moneys received as a grant from the Department of Housing of Puerto Rico. Payment of principal of the Housing Revenue Bonds is also secured by an irrevocable standby letter of credit issued by GDB. These bonds are considered no-commitment debt and, accordingly, are excluded along with the related assets held in trust, from the Housing Finance Authority's financial statements.

(d) Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority (AFICA)

AFICA's revenue bonds are special and limited obligations of AFICA and, except to the extent payable from bond proceeds and investments thereof, will be payable solely from and secured by a pledge and assignment of the amounts payable under the loan agreements between AFICA and the borrowers. Furthermore, payment of principal and interest on the revenue bonds is unconditionally guaranteed by the borrowers, their parent companies, or letters of credit generally issued by major U.S. banks or U.S. branches of international banks.

The revenue bonds are considered conduit debt and do not constitute a debt or a pledge of the good faith and credit of AFICA or the Commonwealth or any political subdivision thereof.

In connection with the issuance of revenue bonds, AFICA enters into trust agreements, whereby AFICA assigns and pledges to the trustees, for the benefit of the holders of the revenue bonds, (1) all amounts receivable by AFICA in repayment of the amounts due under the loan agreements; (2) any rights, title, and interest of AFICA in the proceeds derived from the issuance of the revenue bonds and of any securities in which moneys in any fund or account created by the trust agreements or loan agreements are invested and the proceeds derived therefrom; and (3) AFICA's rights, title, and interest in and to the loan agreements, subject to AFICA's retention of certain rights, including the right to collect moneys payable to AFICA, which are not received with respect to repayment of the loans.

Since inception and up to June 30, 2011, AFICA has issued revenue bonds aggregating to $6,080 million, $1,343 million of which was outstanding as of June 30, 2011. Of the revenue bonds outstanding at June 30, 2011, $786 million represent industrial and commercial revenue bonds; $105 million, tourism related revenue bonds; $138 million, hospital revenue bonds; and $314 million, educational revenue bonds. Pursuant to the loan agreements covering the issuance of these bonds, corporations and partnerships operating in Puerto Rico borrowed the proceeds from the bond issuances by AFICA.

18. RISK MANAGEMENT

The following describes the risk management programs separately administered by certain discretely presented component units:

(a) GDB

Starting in fiscal year 2010, as part of its risk management activities and as a condition to provide financing support to certain public corporations, GDB has entered into fiscal oversight agreements with such public corporations. The agreements require the public corporations, among other, to implement a comprehensive expense reduction program, including certain fiscal oversight controls, subject to laws and existing agreements of the public corporations, design to minimize future tariff increases to households and the private sector, and to protect and improve the credit rating of the public corporations, so that the public corporations may obtain adequate financing to fund its capital expenditure requirements and to operate its infrastructure in an efficient and reliable manner and in compliance with applicable laws and regulations. GDB's agreement to provide current financing and any future financing is expressly conditioned upon the public corporations' compliance with the covenants established in the fiscal oversight agreement and GDB's right to monitor and enforce such compliance. These agreements will be in effect until the public corporations have regained a level of financial stability and are able to secure long-term financing that will result in the continued stability

of the public corporations' operations and financial condition. As of June 30, 2011, GDB's management determined that all public corporations and agencies have complied with the material terms and conditions of their respective agreements.

Also, as part of its role of providing financing to the Commonwealth and its instrumentalities to further the economic development of Puerto Rico, and as part of its risk management activities, GDB is renegotiating and/or restructuring payment terms of the loans to certain governmental entities. Some of the renegotiations/restructurings extend the period for principal repayment but provide for repayment of the contractual interest in accordance with the original terms.

Other Risks Related to Mortgage and Loans Servicing and Insurance Activities — Certain loan portfolios of the Housing Finance Authority, a blended component unit of GDB, are administered by private servicers who are required to maintain an error and omissions insurance policy. The Housing Finance Authority has a program to manage the risk of loss on its mortgage loan lending and insurance activities.

(b) UPR

UPR is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Through January 1993, UPR was insured under claims-made insurance policies with respect to medical malpractice risks for $250,000 per occurrence up to an annual aggregate of $500,000. Subsequent to such date, UPR was unable to obtain insurance at a cost it considered to be economically justifiable; consequently, UPR is now self-insured for such risks. Under Act No. 98 of August 24, 1994, the responsibility of UPR is limited to a maximum amount of $75,000 per person, or $150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Self-insured risk liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend upon such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Changes in the claims liability amount in fiscal years 2011 and 2010 were as follows (expressed in thousands):

	2011	2010
Claims payable — July 1	$ 23,425	$ 27,354
Incurred claims and changes in estimates	2,743	(2,370)
Payments for claims and adjustments expenses	(2,337)	(1,559)
Claims payable — June 30	$ 23,831	$ 23,425

UPR continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(c) PREPA

PREPA is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. PREPA obtains insurance policies covering all-risk property (excluding transmission and distribution lines), boiler and machinery, and public liability. The all-risk property and boiler and machinery policies have a combined coverage of $750 million per occurrence. The policies' self-retention in case of earthquake and windstorm losses is $25 million and $2 million for all other covered risks. The public general liability policy covers property damage and bodily injury to third parties with a $75 million aggregate limit in excess of the self-retention limit of $1 million per occurrence.

PREPA has a cost plus health insurance program covering substantially all employees. PREPA contracted an administrator for the processing, approval, and payment of claims plus an administrative fee. The accrual for employees' health plan includes the liability for claims processed and an estimate for claims incurred but not reported.

Changes in the balances of the health insurance program and other self-insurance risks during fiscal years 2011 and 2010 were as follows (expressed in thousands):

	2011	2010
Claims payable — July 1	$ 5,597	$ 5,552
Incurred claims	95,921	114,179
Claim payments	(94,351)	(114,134)
Claims payable — June 30	$ 7,167	$ 5,597

Claims payable are a component of accounts payable and accrued liabilities in the accompanying statement of net assets (deficit).

(d) SIFC

SIFC provides workers' compensation insurance to public and private employees. This insurance covers workers against injuries, disability, or death because of work or employment related accidents, or because illness is suffered as a consequence of their employment. SIFC establishes liabilities for incurred but unpaid benefits and benefit adjustment expenses based on the ultimate cost of settling the benefits. The liability includes estimates for cases reported that have not been adjudged and cases incurred but not reported. The following table provides a reconciliation of the beginning and ending liability for incurred but unpaid benefits and benefit adjustment expenses for the two most recent fiscal years (expressed in thousands):

	2011	2010
Liability for incurred but unpaid benefits and benefit adjustment expenses at July 1	$ 778,243	$ 738,475
Total incurred benefits	525,568	556,650
Total benefit payments	(519,793)	(516,882)
Liability for incurred but unpaid benefits and benefit adjustment expenses at June 30	$ 784,018	$ 778,243

The liability for incurred but unpaid benefits and benefit adjustment expenses is reported as liability for automobile accident insurance and workmen compensation claims in the accompanying statement of net assets (deficit).

The liability for incurred but unpaid benefits and benefit adjustment expenses is based on historical claims experience data, assumptions and projections as to future events, including claims frequency, severity, persistency, and inflationary trends determined by an independent actuarial study. This liability has been discounted at 4.20% in 2011. SIFC's management believes that discounting such liability results in a better matching of costs and revenues since compensation benefits have a long payment cycle. The assumptions used in estimating and establishing the liability are reviewed annually based on current circumstances and trends.

SIFC's management believes that the liability for incurred but unpaid benefits and benefit adjustment expenses, actuarially determined at June 30, 2011, is a reasonable estimate of the ultimate net cost of settling benefits and benefit expenses incurred. Because actual benefit costs depend upon such factors as duration of worker disability, medical cost trends, occupational disease, inflation, and other social and economic factors, the process used in computing the ultimate cost of settling benefits and expenses for administering benefits is necessarily based on estimates. The amount ultimately paid may be above or below such estimates. Adjustments resulting from changes in estimates of these liabilities are charged or credited to operations in the period in which they occur.

(e) AACA

AACA operates a system of compulsory insurance for vehicles licensed to be used on public roads and highways in Puerto Rico. This insurance covers death and bodily injuries caused by automobile accidents. The annual premium is $35 per motor vehicle.

The following table provides a reconciliation of the beginning and ending liability for the future benefits for the two most recent fiscal years, presented based on undiscounted method (expressed in thousands):

	2011	2010
Liability for incurred but unpaid benefits and benefit adjustment expenses at beginning of year	$ 165,927	$ 166,352
Total incurred benefits	63,180	74,090
Total benefit payments	(62,511)	(74,515)
Liability for incurred but unpaid benefits and benefit adjustment expenses at end of year	$ 166,596	$ 165,927

The liability for future benefits is reported as liability for automobile accident insurance and workmen compensation claims in the accompanying statement of net assets (deficit). The liability covers the estimated cost of all future benefits related to claims incurred but not reported during the year. Future benefits include death and funeral, disability and accident and health benefits. AACA has recorded this liability, including administrative expenses for claim processing, based on the results of an actuarial report prepared by an independent actuary.

Changes in the ultimate liabilities for benefit payments may be required as information develops, which varies from experience, provides additional data, or, in some cases, augments data, which previously were not considered sufficient for use in determining the claim liabilities.

(f) PRIFA

PRIFA is responsible for assuring that its property is properly insured. Annually, PRIFA compiles the information of all property owned and its respective market value and purchases its property and casualty insurance policies. Insurance coverage for fiscal year 2011 remained similar to those of prior years. For the last three years, insurance settlements have not exceeded the amount of coverage.

(g) PRASA

PRASA has acquired commercial insurance to mitigate its exposure to certain losses involving real and personal property (including windstorm, flood and earthquake damages) and comprehensive general and automobile claims. Each commercial insurance policy maintained by PRASA contains specific policy limits and deductibles. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

19. COMMITMENTS AND CONTINGENCIES

Primary Government — The Commonwealth is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Act No. 104 of June 25, 1955, as amended, persons are authorized to sue the Commonwealth only for causes of actions set forth in said Act to a maximum amount of $75,000 or $150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Under certain circumstances, as provided in Act No. 9 of November 26, 1975, as amended, the Commonwealth may provide its officers and employees with legal representation, as well as assume the payment of any judgment that may be entered against them. There is no limitation on the payment of such judgments.

With respect to pending and threatened litigation, excluding the litigation mentioned in the following paragraphs, the Commonwealth reported approximately $281 million as an amount to cover for awarded and anticipated unfavorable judgments at June 30, 2011. This amount was included as other long-term liabilities in the accompanying statement of net assets (deficit), and represents the amount estimated as probable liability or a liability with a fixed or expected due date that will require future available financial resources for this payment. The amounts claimed exceed $17 billion; however, the ultimate liability cannot be presently determined. It is the opinion of management that the claims are excessive and exaggerated. Management believes that the ultimate liability in excess of amounts provided, if any, would not be significant.

The Commonwealth is a defendant in two parallel lawsuits, one filed in the state court and the other at the federal court. The plaintiffs are various primary healthcare centers seeking to recover from the Commonwealth $500 million of Medicaid funds retained by the Department of Health of the Commonwealth since 1997. In February 2005, United States Court of Appeals for the First Circuit determined that the Commonwealth must return any funds withheld because of noncompliance with a federal law. As of June 30, 2011, the Commonwealth accrued $500 million for this legal contingency.

The Commonwealth is a defendant in a class action presented by parents of special education students in the areas of education and healthcare. In October 2006, the State Court of Appeals decided in favor of the parents' request to include damage claims pursuant to the same class action case although not as a

remedy in the class action per se. The court now may award damages to the members of the class action and to do so it may look at the claims by dividing them into groups or consider each case individually. This will require that the parents prove the damages suffered. The Commonwealth plans to defend vigorously each individual case. As of June 30, 2011, the Commonwealth accrued $600 million for this legal contingency.

The Commonwealth receives financial assistance from the federal government in the form of grants and entitlements. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal laws and regulations, including the expenditure of resources for eligible purposes. Substantially, all grants are subject to audit under Circular A-133 of the Office of Management and Budget of the United States of America (OMB Circular A-133), all of which are performed at the individual department or agency level. Disallowance as a result of these audits may become liabilities of the Commonwealth. At June 30, 2011, based on an evaluation of pending federal disallowances, the Commonwealth has recorded approximately $118.9 million as other long-term liabilities in the accompanying statement of net assets (deficit). Expenditures that are still subject to audit could be disallowed but management believes any such future disallowances would not be material to the basic financial statements.

Construction commitments at June 30, 2011, entered by PBA, amounted to approximately $72.7 million. In addition, the Commonwealth's construction commitments for public housing facilities amounted to approximately $322 million at June 30, 2011.

On November 23, 1998, a global settlement agreement (the "Global Agreement") was entered into by and between certain tobacco companies and certain states, territories, and other jurisdictions of the United States of America, including the Commonwealth. The agreement calls for annual payments through the year 2025, which will vary due to inflationary and volume adjustments. After 2025, the tobacco companies are to continue making contributions in perpetuity. Pursuant to Act No. 173 of July 30, 1999, which created the Children's Trust (a blended component unit), the Commonwealth assigned and transferred to the Trust all payments that the Commonwealth is entitled to receive under the Global Agreement. Payments received under the agreement and recognized as revenue during the year ended June 30, 2011 amounted to approximately $71 million.

Discretely Presented Component Units — in the normal course of their operations, various component units are subject to guarantees, actions brought by third parties seeking damages or entering into commitments. Such actions are disclosed in the separately issued reports of the component units, some of which are summarized below:

(a) GDB

On August 18, 2002, the Legislature approved Law No. 198, which creates the Cooperative Development Investment Fund. The purpose of this fund is to promote the development of cooperative entities. This fund will be capitalized through contributions to be provided by GDB up to $25 million to be matched by cooperative entities. As of June 30, 2011, GDB has contributed $16.9 million to the Cooperative Development Investment Fund, $673,000 of which were contributed during the year ended June 30, 2011.

The Development Fund, a blended component unit of GDB, has entered into an agreement with the Economic Development Bank for Puerto Rico (EDB) whereby the Development Fund would guarantee a portion of loans granted by EDB under a government program named "The Key for Your Business" (the "Program"). Under the agreement, the Development Fund would assign $15 million of its capital for the Program. The Development Fund guarantees one-third of the outstanding principal balance of each loan plus accrued interest and certain other charges. The Development Fund charges one percent of the loan amount as guarantee fee and no loan can exceed $50,000. At June 30, 2011, the outstanding balance of loans guaranteed amounted to approximately $14.2 million, and the allowance for losses on guarantees amounted to approximately $1.5 million.

The Housing Finance Authority, a blended component unit of GDB, acts as servicer for a number of mortgage loans owned by other investors. The servicing is generally subcontracted to a third party. As of June 30, 2011, the principal balance of the mortgage loans serviced for others is approximately as follows (expressed in thousands):

R-G Mortgage, Inc.	$ 1,439
Office for the Administration of the Assets of the Urban Renovation and Housing Corporation or its successor without guaranteed mortgage loan payments	43
Popular Mortgage, Inc.	38
Total	$ 1,520

GDB and certain of its component units are defendants in several lawsuits arising out of the normal course of business. Management, based on advice of legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings will not have a material adverse effect on the financial position and results of operations of GDB or its component units.

(b) PRHTA

PRHTA is a defendant or co-defendant in various lawsuits for alleged damages in cases principally related to construction projects. These are generally either fully or partially covered by insurance. The contactors are required, under the terms of the construction agreements to carry adequate public liability insurance and to hold harmless the PRHTA from lawsuits brought on account of damages relating to the construction of the projects.

During July 2010, PRHTA settled two legal cases amounting to approximately $62 million. On June 13, 2011, PRHTA deposited approximately $21.8 million at the Federal Court of Puerto Rico as part of the appeal process at the U.S. Court of Appeals for the First Circuit of Boston for another legal case related to a construction project.

As of June 30, 2011, PRHTA, based on legal advice, has recorded a provision of approximately $92.6 million to cover probable losses on those claims not fully covered by insurance. In the opinion of legal counsel, any liability in excess of the insurance coverage and/or the recorded provision that may arise for such claims will not be significant to the PRHTA's financial position or results of operations.

(c) PRASA

PRASA is a defendant on various lawsuits presented by customers alleging that PRASA has over billed them due to the methodology used to estimate consumption. There are two cases in which plaintiffs requested a certification of the suit as a class action and seek recovery damages in the amount of approximately $386 million, plus legal costs of around $100 million (25%) and interests and an injunction enjoining PRASA from continuing to bill using the current methodology. PRASA's potential exposure from these lawsuits cannot be presently determined and, as such, no liability is being reported on the accompanying basic financial statements.

PRASA is the defendant or codefendant in various other lawsuits. The ultimate outcome of the lawsuits cannot presently be determined. However, PRASA's management, based on the advice of legal counsels, is of the opinion that these lawsuits will not have a material impact on the basic financial statements.

(d) PREPA

PREPA is a defendant or codefendant in several lawsuits incidental to its business, some involving substantial amounts. In those instances that management and legal counsel believe that the outcome of the litigation will be unfavorable to PREPA, a provision has been made to cover the estimated liability. PREPA's management, based on discussions with legal counsel believes that the additional liability, if any, resulting from the ultimate resolution of these matters will not have a material effect on PREPA's financial position or results of operations.

On May 18, 2000, Abengoa, Puerto Rico, S.E. (Abengoa), PREPA's contractor for the repowering of San Juan steam plant units 5 and 6, unilaterally declared a termination of the contract with PREPA and filed a complaint for breach of contract. PREPA has moved for time to answer the complaint and has filed a counterclaim for the cost of the project and for all damages caused to PREPA by the alleged illegal contract termination. PREPA believes that the actions by the contractor will not materially affect the ability of PREPA to provide service nor there will be a material difference in the quality of service provided by PREPA.

In June 2004, the Office of the Comptroller of the Commonwealth of Puerto Rico (the "Comptroller") issued a report stating that PREPA overcharged its clients by approximately $49.8 million, and should reimburse this amount to such clients. After this report was made public, two lawsuits were filed by clients of PREPA against PREPA demanding the reimbursement of such alleged overcharges. PREPA's position is that the Comptroller incorrectly based his conclusion on data that is not relevant to the calculation of PREPA's rates, and that PREPA's rates were properly established in the year 2000 in accordance with applicable laws and regulations. In particular, PREPA notes that its rates properly take into consideration the cost of the fuel used by PREPA's generating facilities and the cost of the electricity purchased from the two co-generating facilities that sell power to PREPA.

In 2008, Power Technologies Corp. filed a suit against PREPA, alleging that PREPA had withdrawn from a contracting process for a new energy facility, in which Power Technologies was involved, without explanation or justification. Power Technologies seeks damages of $51.4 million. The case is currently in discovery stage.

In addition to these cases, PREPA is involved in typical litigation for an electric power utility, but management estimates the amounts of such claims are not material and will not affect adversely PREPA's operations.

(e) PRMeSA

On October 14, 2010, the Legislature of the Commonwealth approved a new article 9A to Act No. 66 of June 22, 1978, (the "Article"), authorizing PRMeSA to incur in obligations up to $285 million, under such terms and conditions approved by the Board of Member Institutions (the Board) of PRMeSA and GDB, as fiscal agent of the Commonwealth and its instrumentalities.

These additional funds shall be deposited in a special account at GDB and may only be used for the following purposes:

a. payment of debts to suppliers, agencies, institutions, reserve fund for the self-insurance (professional responsibility and inter-fund debt) of PRMeSA; and

b. to provide operational liquidity to ease PRMeSA's fiscal situation during the 2010-11 fiscal year, as determined by the agreement with GDB.

From savings generated as a result of the debt renegotiations with the agencies and institutions, PRMeSA will create a fund to cover operating expenses related to maintenance, overhaul and reconditioning of the physical plant. GDB, in its role as fiscal agent, shall possess the administrative mechanisms as it deems necessary to ensure that these funds will be used solely and exclusively for the purposes set forth in the Article. The special bank account and the funds deposited therein shall not be seized, syndicated, frozen, encumbered or otherwise affected by decisions, judgments, orders or rulings issued by courts of Justice of the Government of Puerto Rico or its agencies or public corporations during any adjudicative proceeding of administrative or judicial nature, regardless of whether they were initiated by private individuals or public institutions.

PRMeSA was required to develop and implement within one hundred eighty (180) days from the approval of the Article, an aggressive collection plan for the recovery of its accounts receivable. The Directors shall report periodically to GDB on the implementation of that plan, and report annually to the Board and GDB the collection proceeds arising from the execution of the plan. GDB was authorized as fiscal agent to undertake any necessary measures in order to, within a reasonable period of time, help PRMeSA to become and operate as an independent fiscal instrumentality.

However, once the collection plan is working as expected and providing PRMeSA the funds resources required, and became a financially independent institution as determined by GDB, PRMeSA will be required to assume the remaining established obligations.

The Commonwealth will honor the payment of the obligations authorized, with legislative appropriations made by the Legislature on the annual budgets, beginning with the fiscal year 2012-2013 and ending in the fiscal year 2023-2024.

Also, for the fiscal years 2012-2013 and 2013-2014, the Director of the Office of Management and Budget, will consign on the annual budgets, the amount corresponding to interests on the obligations incurred and, beginning on fiscal year 2014-2015, and for the next nine (9) years, the amount of $31.5 million plus interests on the obligations incurred. If in any moment the legislative appropriations or other income of PRMeSA were not sufficient to cover the payment of the obligations authorized and the accrued interest, the Secretary of the Treasury will withdraw from any amounts available in the General Fund of the Commonwealth the necessary amounts to repay the principal and interests of the line of credit.

PRMeSA has accounts receivable aggregating $19 million at June 30, 2011, from the Hospital of the Municipality of San Juan, related to medical services rendered. PRMeSA alleges that these amounts are related to services rendered during the period from June 30, 2005 to June 30, 2011.

PRMeSA filed at the Department of Justice of the Commonwealth and with the Commission for the Resolution of Controversies over Payments and Debts between Governmental Agencies, a claim demanding the resolution of this matter. On June 29, 2009, the Commission designated the OMB to serve as a mediator in this claim. As of June 30, 2011, no resolution or recommendation has been made by the OMB in connection with this controversy.

PRMeSA is a party in certain legal actions and claims related to medical malpractice arising in the ordinary conduct of its business. Although PRMeSA appears as a defendant in the claims, many of them involve medical personnel of the member institutions, and in effect, these claims are against said institutions. As a result of the deficiency as of June 30, 2011, of funds available in the Self-Insurance Fund, any unfavorable outcome may have a significant effect on the financial condition of PRMeSA.

Based on a review of current facts and circumstances, PRMeSA's management has provided for what is believed to be a reasonable estimate of the exposure to loss associated to litigation. PRMeSA has established an accrual reserve for claim losses in the amount of $7 million at June 30, 2011.

(f) PRIFA

At June 30, 2011, PRIFA is a defendant in various legal proceeding arising from its normal operations. Management, based on the advice of its legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings and legal actions in the aggregate will not have a material effect on PRIFA's financial statements. However, management is of the opinion that they will reach settlements in certain cases. A liability to cover claims and other contingencies amounting to $4.9 million has been reflected as part of accounts payable and accrued expenses in the accompanying statement of net assets (deficit).

(g) Special Communities Perpetual Trust

The Special Communities Perpetual Trust (the "Trust") has financial assistance agreements with several municipalities of the Commonwealth to provide funding for the construction, improvement and rehabilitation of certain projects of the Special Communities. At June 30, 2011, the Trust's commitments with the municipalities amounted to approximately $116.7 million, from which a total of approximately $93.3 million had been disbursed.

The Trust is a defendant in numerous legal proceedings pertaining to matters incidental to the performance its normal operations. The Trust recorded approximately $3 million to cover for awarded and anticipated unfavorable judgments at June 30, 2011. This amount represents the amount estimated as probable liability that will require future available financial resources for its payment. The amounts claimed approximate $48 million; however, the ultimate liability cannot be presently determined. It is the opinion of management that the claims are excessive and exaggerated. Management, based on the advice of its legal counsel, believes that the ultimate liability in excess of amounts provided would likely not exceed $1.8 million.

There is a case pending in court in which the Trust is the plaintiff for the expropriation of real property. Management, based on the advice of its legal counsel, believes that the Trust will have to pay approximately $600,000 in excess of amounts already deposited with the court when the final expropriation takes place.

Environmental Commitments and Contingencies

Primary Government

The Commonwealth accounts for the pollution remediation obligations in accordance with GASB Statement No. 49, "*Accounting and Financial Reporting for Pollution Remediation Obligations*". This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care.

Once any of five specified obligating events occurs, a government is required to estimate the component of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. Obligating events include the following:

- The government is compelled to take pollution remediation action because of an imminent endangerment.
- The government violates a pollution prevention–related permit or license.
- The government is named, or evidence indicates that it will be named, by a regulator as a responsible party or potentially responsible party (PRP) for remediation, or as a government responsible for sharing costs.
- The government is named, or evidence indicates that it will be named, in a lawsuit to compel participation in pollution remediation.
- The government commences or legally obligates itself to commence pollution remediation.

As of June 30, 2011, the pollution remediation obligation recorded in the accompanying statement of net assets (deficit) amounted to approximately $7 million, and is included in other long-term liabilities.

Component Units

The following component units' operations include activities that are subject to state and federal environmental regulations:

- *PREPA* — Facilities and operations of PREPA are subject to regulations under numerous federal and Commonwealth environmental laws, including the Clean Air Act, Clean Water Act, Oil Pollution Act (OPA) Resource Conservation Recovery Act (RCRA), Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and Underground Storage Tanks, among others. In February 1992, the Environmental Protection Agency (EPA)

conducted a multimedia inspection of PREPA's facilities and identified several alleged instances of noncompliance related to PREPA's air, water, and oil spill prevention control and countermeasures compliance programs.

PREPA and the EPA undertook negotiations to resolve the issues regarding the deficiencies observed during the inspection and to ensure future compliance with all applicable laws and regulations. As a result of the negotiations, PREPA and the EPA reached an agreement that resulted in a consent decree (the "Consent Decree") approved by the United States federal court in March 1999. Under the terms and conditions of the Consent Decree, PREPA paid a civil penalty of $1.5 million and implemented additional compliance projects amounting $4.5 million. In addition, the Consent Decree requires that PREPA improves and implements compliance programs and operations in order to assure compliance with environmental laws and regulations.

In 2004, the United States federal court approved a modification to the Consent Decree agreed by PREPA and the EPA under which PREPA reduced, in two steps, the sulfur content in the No. 6 fuel oil used in certain generating units of its Costa Sur and Aguirre power plants (to 0.75% or less by March 1, 2005 and to 0.5% or less by March 1, 2007), and used No. 6 fuel oil with sulfur content of not more than 0.5% through July 18, 2009 at its Palo Seco and San Juan power plants. Additionally, PREPA has completed a nitrogen oxide emissions reduction program and modified the optimal operating ranges for all its units under the Consent Decree. PREPA also paid a $300,000 civil fine and reserved $200,000 to fund certain supplemental environmental projects and programs under the Consent Decree.

PREPA has audited the Consent Decree programs and a considerable number of them can be closed since their requirements have been completed. The programs can be closed under a Stipulation of Partial Termination filed jointly, in federal court, with the EPA.

Since September 2004, there has been no legal action in the United States federal court or any administrative proceeding against PREPA regarding the Consent Decree or its modification. The Consent Decree includes stipulated penalties for certain events of noncompliance. Noncompliance events must be disclosed to EPA in the corresponding report. Ordinarily, when a covered noncompliance event occurs, PREPA pays the stipulated penalty in advance in order to benefit from a 50% discount of the applicable stipulated penalty.

In 1997, as a result of an inspection carried out by EPA and the Puerto Rico Environmental Quality Board (EQB) at PREPA's Palo Seco Power Plant, the EPA issued an Administrative Order for the investigation and possible remediation of seven areas identified by the EPA at the Palo Seco Power Plant and the Palo Seco General warehouse. The Administrative Order required PREPA to carry out a Remedial Investigation/Feasibility study (RI/FS). The RI/FS required under the Order is designed to: (i) determine the nature and extent of contamination and any threat to the public health, welfare or environmental caused by any release or threatened released of hazardous substances, pollutants or contaminants at or from the site; and (ii) determine and evaluate alternatives for the remediation and control of the release or threatened release of hazardous substances, pollutants, or contaminants at or from the site. The RI/FS is still in progress. The RI was completed and a final report was submitted to EPA for evaluation. PREPA is waiting for EPA's evaluation.

The information gather under the RI reflected the presence of free product (Separate Phase Hydrocarbons) in several monitoring wells. The analysis of this product also reflected a low concentration of polychlorinated biphenyls (PCBs). PREPA and EPA entered in to an Administrative Order on Consent (CERCLA-02-2008-2022) requiring PREPA to complete a

removal plan that consists of determining if the underground water has been impacted by the PCBs, the extension of the contamination and the implementation of a work plan for free product removal. Analytical data collected during this activity reflected that underground water has not been impacted by PCBs. Nevertheless, water/oil mix has been found in several monitoring wells (MWs). PCBs concentrations between 1.36 – 2.36 parts per million were detected in the oil found in 3 of the 7 MWs. Multiphase extraction (MPE) activities in the MWs where water/oil phases were found, has been performed on a weekly basis. After several MPE, this activity was discontinued at USEPA's recommendations. MWs gauging readings were performed during these activities. The last MW gauging readings reflected the presence of oil/water mix in nine MW's. Three of these wells are located off-site. This situation represents an environmental threat since the wells are located near the ocean. USEPA request the take actions to avoid the environmental threat, PREPA proposed the installation of LNAPL Barrier wall which prevent further off-site migration of LNAPL and include long term passive recovery of the LNAP. The cost of the wall barrier installation is around $1,000,000. As part of the USEPA/PREPA meetings regarding RI/FS and AOC, USEPA is considered that RI/FS will be completed as a no action ROD with some institutional controls and the AOC will be closed with the installation of the barrier wall. USEPA will notify PREPA with the final decision after discussion with other USEPA Region 2 personnel.

The remaining costs to achieve compliance have been estimated at $1,500,000. Both Orders also establish a Reimbursement of Costs condition in which PREPA agrees to reimburse EPA for all costs incurred by EPA in connection to the site. No bill has been received by PREPA, as of this date.

The Record of Decision (ROD) was published as scheduled by EPA on September 30, 2011. Alternative No. 2, Removal with On-Site Consolidation and Cover in the Non-Residential Area, was selected. From this point on, EPA resumed negotiations with the Potential Responsible Parties (PRP's), both private and public, towards signing a Consent Decree through which the PRP's would contribute enough funds to cover the costs of the remedial action and the maintenance of the site. PREPA has already approved a contribution of $1,000,000 through Resolution 3804, April 1, 2011. Notwithstanding, through further negotiations an additional contribution of $300,000 was required by EPA. This contribution will be considered by PREPA's Governing Board in the upcoming weeks. Once approved PREPA should be able to finalize the negotiations and execute the Consent Decree, subject to the ability of the other public PRP's to do the same. Once this CD is executed no further disbursements are foreseeable, but for the noncompliance of other PRP's

In 2002, PREPA received a "Special Notice Concerning Remedial Investigation/Feasibility Study for Soil" at the Vega Baja Solid Waste Disposal Superfund Site. The EPA has identified PREPA and other six entities as "potentially responsible parties", as defined in the CERCLA. In 2003, PREPA agreed to join the other potentially responsible parties in an Administrative Order on Consent (AOC) for an RI/FS, with the understanding that such agreement did not constitute an acceptance or responsibility. Under the AOC, PREPA committed up to $250,000 as its contribution to partially fund the RI/FS. At this time, RI/FS has been completed. The work proceeded in accordance with the schedule established by PREPA and the other designated potentially responsible parties. In July 2010, a proposed plan was issued identifying the Preferred Alternative to address soil contamination at the Vega Baja Solid Waste Disposal Site. EPA held a public hearing on August 3, 2010 to discuss the alternatives to address soil contamination. A Record of Decision (ROD) by EPA is scheduled for the end of September 2010 in which a determination of the selected alternative will be made.

On January 10, 2008, PREPA and Skanska Energy Services, LLC (Skanska) entered into an Engineer Procure Construct Finance Contract for the construction of the Gasoducto del Sur Project (the "Project") for an original Contract Price of $74,324,259. On December 2, 2008, the Superior Court of Ponce issued an injunction stopping all construction. On July 23, 2009, PREPA's Governing Board authorized the termination and settlement of the Contract. PREPA obtained title to all equipment and material procured and 100% of engineering documents and all pending disputes were settled for a lump-sum payment of $59,000,000 due to the Contractor. The Termination and Settlement Agreement was executed on August 7, 2009. Pursuant to an Asset Purchase Agreement dated August 17, 2009, PREPA sold the assets of the Gasoducto del Sur Project to The Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority (AFICA by its Spanish acronym) for approximately $36 million. In addition, PREPA entered into a Subordinated Loan Agreement with the Government Development Bank (GDB) for $35,000,000 evidenced by a 24-month subordinated note until such time that Puerto Rico Aqueduct and Sewer Authority (PRASA) shall purchase from AFICA the Project.

- *PRASA* — On July 1, 2003, PRASA entered into an agreement (Civil Action No. 01-1709) with EPA to attain compliance with the Clean Water Act in relation to PRASA's wastewater pump stations (WWPSs) in response to a significant number of sanitary sewer bypasses from these locations. The Clean Water Act prohibits discharges of sewage from any point in the collection and treatment system other than the authorized point at the treatment facility. PRASA completed all improvement projects required by EPA for these WWPSs on or before the established completion dates in the Agreement. This Agreement also required PRASA to invest $1 million in the development and implementation of a Supplemental Environmental Project (SEP). This project consisted of the connection of three NON-PRASA communities to the PRASA's drinking water system. The connection has been completed and is awaiting completion of adjacent systems to fully integrate these systems to PRASA's service. The Agreement also required the implementation of the Preventive Maintenance Program (PMP) for all of PRASA's WWPSs. This was fully completed in December of 2010, after a three phase, EPA-approved implementation schedule. As part of the Agreement, PRASA pays stipulated penalties for pump station bypass events on a quarterly basis. The penalty calculations are based on the pumping capacity of the pump station and the time taken to correct the deficiency causing the bypass event. The amount paid during fiscal year 2011 was approximately $.4 million.

On June 22, 2006, PRASA entered into a consent decree (Civil Action No. 06-1624) with EPA that requires PRASA to implement system-wide remedial measures at all of the wastewater treatment plants operated by PRASA. The decree establishes deadlines for the compliance with the conditions set forth in the agreement and stipulates penalties for violation of any of those deadlines. PRASA was assessed a stipulated civil penalty of $1 million which was paid during fiscal year 2008. This penalty was assessed by the Court as payment for the discharge permit violations of several treatment facilities to the Clear Water Act. The agreement also required PRASA to deposit in an escrow account with GDB an additional civil penalty of $3 million. These funds are to be used for providing sewer service to a community that has not been connected to PRASA's sanitary sewer system. PRASA is currently engaged in discussion with EPA as to the specific community that will benefit from this project. As part of the agreement, PRASA pays stipulated penalties on a yearly basis for exceedances to each of PRASA's facilities to their individual discharge permits. The penalty calculations are based on frequency of the exceedances as well as the percentage of the exceedances with its respective limit. The amount paid during fiscal year 2011 was approximately $.5 million. These penalty payments are deposited into an escrow account from which a fraction of the deposited amount can be reimbursed to PRASA based on completion of specific projects and initiatives.

On May 25, 2006, PRASA entered into a plea agreement with the U.S. Department of Justice related to violations of the Clean Water Act, as amended, Title 33, USC, Sections 1131(a) and 1319(c)(2)(A). As part of the agreement (Criminal Case No. 06-CR-00202-001), PRASA paid a $9 million fine. This penalty was assessed by the Court as payment for the discharge permit violations of several treatment facilities to the Clean Water Act. In addition, the agreement required PRASA to comply with several special conditions, such as: (i) upgrade the collection and wastewater treatment system in the Ponce de León Avenue area of San Juan for a cost of not less than $10 million to prevent direct discharges to the Martín Peña Channel; (ii) upgrade nine wastewater treatment plants for a cost of not less than $109 million; and (iii) comply with the consent decree signed by PREPA with the U.S. government on June 22, 2006. The plea agreement also established stipulated penalties for violation of any on the deadlines of performance standards set forth in the agreement. Currently, PRASA is in compliance with the deadlines and requirements of this consent order and no penalties have been paid.

On December 15, 2006, an agreement (Civil Case No. KPE 2006-0858 was signed between PRASA and the Department of Health of the Commonwealth related to violations of the Safe Drinking Water Act (SDWA), as amended. The agreement was preliminary approved by the supervising court on March 15, 2007 and it was amended and finally approved by that court on June 20, 2008. PRASA agreed to implement a work plan to remediate the violations, establish preventive and mitigation measures, and execute a preventive maintenance program for the purpose of meeting the requirements of the SDWA. This Act requires the compliance with parameters of water quality and treatment techniques in PRASA’s water systems. As part of the agreement, PRASA paid a penalty of $1 million during fiscal year ended June 30, 2007. The civil penalty was stipulated by the court for alleged non-compliance issues to the SDWA attended in this decree. In this Consent Decree, PRASA shall pay stipulated penalties for failing to comply with remedial measures deadlines, fail to submit deliverables or exceedances to maximum contaminant levels. During fiscal year ended June 30, 2008 and based on the amendment and final approval of the agreement, PRASA accrued approximately $2.7 million for penalties for noncompliance as stipulated by the final agreement, which were paid during fiscal year 2009. Also, as part of the penalties for noncompliance with the remedial measures of the agreement with the Department of Health during fiscal year 2009, $1.3 million were deposited in a GDB escrow account to be used for a SEP. This SEP included three projects: (1) a chemical monitoring of 67 non-PRASA systems, (2) the installation of a disinfection system in six non-PRASA systems, and (3) the connection of schools that have their own deficient water systems o PRASA’s water system. During fiscal year ended June 30, 2011, PRASA paid the amount of $200,000.

On November 2007, PRASA entered into negotiation of a consent decree (Civil Action No. 10-1365) with EPA that requires PRASA to implement system wide remedial measures at all of the sludge treatment systems at the water treatment plants owned and operated by PRASA. The consent decree was lodged on May 3, 2010 and its entry date was August 24, 2010. This consent order closed previous consent orders known as PRASA II Civil Action No. 92-1511 and PRASA III Civil Action No. 00-2554. This consent order establishes deadlines for the compliance with the conditions set forth in the proposed agreement and stipulates penalties for violation of any of those deadlines.

PRASA was assessed a penalty of approximately $3.2 million which was paid during fiscal year 2011. In accordance with this consent decree, from the amount of $3.2 million, PRASA paid a civil penalty of approximately $1 million to the Treasury of the United States of America. The civil penalty was established by EPA and U.S. Department of Justice for the alleged non-compliance issues attended in this consent decree associated with the Clean Water Act. The

other amount of approximately $2.2 million was deposited in an escrow account with GDB for the design and construction of a SEP. As part of this consent decree, the SEP project that will be executed by PRASA is the installation of an aeration system in the Toa Vaca Lake. The aeration system is under construction. The total amount of penalties paid under this agreement during the fiscal year 2011 was approximately $100,000. Stipulated penalties must be paid by PRASA for failing to comply with remedial measures deadlines, fail to submit deliverables or DMR's monthly reports or permit limit exceedances.

PRASA is a defendant in other environmental minor lawsuits, pending trial or final judgment. PRASA intends to vigorously defend itself against all of the allegations. PRASA's management, based on the advice of legal counsel, is of opinion that any liability that may result from such lawsuits would not have a material adverse effect on PRASA's financial positions as of June 30, 2011.

- *SWA* — SWA initiated in years prior to the year ended June 30, 2011, the implementation and development of the Strategic Plan for Recycling and Disposal of Solid Waste in Puerto Rico at an estimated cost of approximately $112 million. The first stage consists of the construction of thirty-nine (39) projects to be financed through and interim financing agreement with the Government Development Bank for Puerto Rico. The lines-of-credit under the agreement were paid by the Treasury Department of the Commonwealth through joint resolutions approved by the Legislature of Puerto Rico. SWA has continued with the planning and construction of the projects.

During May 2008, SWA approved the "Dynamic Itinerary for the Infrastructure Projects of Solid Waste in Puerto Rico". This itinerary defines the strategies for safe and efficient handling of solid waste in Puerto Rico for the next twenty-five (25) years in compliance with all applicable regulations. SWA proposes this itinerary for the purpose of adopting this plan as the official instrument to guide public policy for the development of infrastructure projects for handling and final disposition of solid waste in Puerto Rico. The projects proposed in the itinerary include programs to develop facilities for the recovery of recyclable materials (MRF's), facilities for the deposit of acceptable sludge, facilities to convert solid waste to energy, transshipment facilities and lateral expansion to sanitary stuffing systems (SRS). The development of these projects takes into consideration the closing of various SRS. The construction investment is estimated in approximately $1.9 billion. SWA projects that financing for these projects will come from both the public and private sectors.

Construction Commitments — As of June 30, 2011, the following component units maintained various unspent construction agreements as follows (expressed in thousands):

Puerto Rico Highways and Transportation Authority	$ 667,726
Puerto Rico Electric Power Authority	105,100
Puerto Rico Infrastructure Financing Authority	63,145
University of Puerto Rico	60,707
Puerto Rico Aqueduct and Sewer Authority	50,900
Company for the Integral Development of the "Peninsula de Cantera"	25,664
Puerto Rico Ports Authority	25,400
Port of the Americas Authority	19,271
Puerto Rico and Municipal Islands Maritime Transport Authority	14,900
Puerto Rico Land Administration	4,585
Governing Board of the 9-1-1 Service	3,287
Institute of Puerto Rican Culture	3,097
Puerto Rico Conservatory of Music Corporation	401
Institutional Trust of the National Guard of Puerto Rico	294
Total	$ 1,044,477

20. RETIREMENT SYSTEMS

The Commonwealth sponsors three contributory pension plans (collectively known as the "Retirement Systems"), which are reported in the accompanying statement of fiduciary net assets:

- Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS)
- The Commonwealth of Puerto Rico Judiciary Retirement System (JRS)
- Puerto Rico System of Annuities and Pensions for Teachers (TRS)

Each system is independent; thus, their assets or liabilities may not be transferred from one system to another or used for any purpose other than to benefit the participants of each system.

The Retirement Systems issue financial reports, which are publicly available and include the basic financial statements, the required trend information, and any other required supplementary information. These reports may be obtained by written request to the corresponding retirement system administrator at the addresses detailed in note 1(b).

(a) ERS

Plan Description — The ERS is a defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration and was created by Act No. 447 on May 15, 1951. The ERS began operations on January 1, 1952, at which date, contributions by employers and participating employees commenced. The ERS is a pension trust fund of the Commonwealth. The ERS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The responsibility for the proper operation and administration of the ERS is vested on the board of trustees, composed of two participating employees and one pensioner, who are appointed by the Governor of the Commonwealth. Also, there are four Commonwealth government agency representatives, which are the Secretary of the Treasury, the President of the Government

Development Bank for Puerto Rico, the Executive Director of the Commonwealth's Human Resources Office, and the Municipal Affairs Commissioner.

As of June 30, 2011, the ERS has an unfunded actuarial accrued liability of approximately $23.7 billion, representing a 6.80% funding ratio using net assets. In the opinion of management and based on information prepared by external consulting actuaries, if measures are not taken now to deal with this situation, the ERS will not be able to fully fund pensions beginning in fiscal year 2020; however, net assets held in trust for pension benefits will be exhausted during fiscal year 2014. This situation could have a direct negative effect on the Commonwealth's general fund, since most of the employers under the ERS are government agencies obligated to make actuarial contributions to fund the ERS.

To address to these issues, the Governor of the Commonwealth (the "Governor"), by Executive Order OE-2010-10 dated March 12, 2010, created the Special Commission on the Retirement Systems Reform (the "Commission"), to provide individual and/or group recommendations on actions that the executive and legislative branches can execute to provide immediate alternatives to ease the current crisis and long-term solutions to improve the financial condition of the ERS.

On October 21, 2010, the Commission presented a report to the Governor that included specific recommendations addressing the current fiscal crisis and cash flow problems of ERS. Among these recommendations, the Commission proposed increasing the contribution percentages, restructuring benefits and establishing certain limitations on loans, among other.

After reviewing the Commission's report, ERS and the Commonwealth, with the assistance of the ERS external consulting actuaries, concluded that annual increases in the employers' contribution rate would be required to fully fund pensions, without having to liquidate ERS investment portfolio. Accordingly, on July 16, 2011, the Commonwealth enacted Act No. 116, an amendment to Act No. 447 of May 15, 1951, which increases the employers' contributions to the ERS. The employers' contributions to the ERS will increase from 9.275% to 10.275% effective July 1, 2011, with annual increases of 1% each July 1st from July 1, 2012 until June 30, 2016 and then with annual increases of 1.25% each July 1st from July 1, 2016 until June 30, 2021 (when the employer's contribution will reach 20.525%).

Other measures taken to improve the funding ratio of ERS, include 1) improving the collection of late contributions by receiving such contributions directly from the Centro Recaudaciones Ingresos Municipales (CRIM) when a municipality fails to send their contributions within 30 days from the due date or from the Department of Treasury of the Commonwealth (Hacienda) in the case of agencies; 2) implementation of Act No. 70 establishing early retirement incentives; 3) revision of the Employee Personal Loan Policy by limiting personal and cultural loan amounts to $5,000 each, from $15,000 and $10,000, respectively; and 4) the receipt of a special contribution from the Commonwealth that was invested in junior subordinated capital appreciation bonds issued by Corporación para el Fondo de Interés Apremiante de Puerto Rico (the "COFINA Bonds") amounting to $162.5 million.

Act No. 70 establishes a program that provides benefits for early retirement or economic incentives for voluntary employment terminations to eligible employees, as defined. Act No. 70 also establishes that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees' monthly salary. Benefits under this program will be paid by the General Fund of the Commonwealth (the "General Fund") and by the public corporations, covering their respective employees until the plan member reaches the later of age 55 for members under Law

447 or age 65 for members under Act 1, or the date the plan member would have completed 30 years of service had the member continued its employment. ERS will be responsible for benefit payments afterwards. In addition, the General Fund and the public corporations will also be required to make a contribution equal to 9.275% (17.55% for public corporations) of final salary of the plan member to the ERS.

The successful implementation of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

The ERS consists of different benefit structures pursuant to Act No. 447 of 1951, as amended, including a cost-sharing multi-employer contributory defined benefit program and a cash balance program, similar to a cash balance plan. The ERS is sponsored by the Commonwealth, public corporations, and municipalities of Puerto Rico. Substantially all full-time employees of the Commonwealth and its instrumentalities (Commonwealth Agencies, Municipalities, and Public Corporations, including the ERS) are covered by the ERS. All regular, appointed, and temporary employees of the Commonwealth at the date of employment become plan members of the ERS. The ERS is optional for Commonwealth officers appointed by the Governor and Head of Agencies.

Plan members, other than those joining the ERS after March 31, 1990, are eligible for the benefits described below:

Retirement Annuity — Plan members are eligible for a retirement annuity upon reaching the following age:

Policemen and Firefighters	**Other Employees**
50 with 25 years of credited service	55 with 25 years of credited service
58 with 10 years of credited service	58 with 10 years of credited service

Plan members are eligible for monthly benefit payments determined by the application of stipulated benefit ratios to the plan member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by the ERS. The annuity, for which a plan member is eligible, is limited to a minimum of $400 per month and a maximum of 75% of the average compensation.

Merit Annuity — Plan members are eligible for merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65% and a maximum of 75% of the average compensation.

Deferred Retirement Annuity — A participating employee who ceases to be an employee of the Commonwealth after having accumulated a minimum of 10 years of credited service qualifies for retirement benefits provided his/her contributions to the ERS are left within the ERS until attainment of 58 years of age.

Coordinated Plan — On the coordinated plan, the participating employee contributes a 5.775% of the monthly salary for the first $550 and 8.275% for the excess over $550. By the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced by the following:

- $165 per month if retired with 55 years of age and 30 years of credited service.

- $110 per month if retired with less than 55 years of age and 30 years of credited service.
- All other between $82 and $100 per month.
- Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over $165 per month.

Noncoordinated Plan — On the noncoordinated plan, the participating employee contributes an 8.275% of the monthly salary and does not have any change on the pension benefits upon receiving social security benefits.

Reversionary Annuity — A plan member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The life annuity payments would start after the death of the retiree for an amount not less than $240 yearly or greater than the annuity payments being received by the retiree.

Occupational Disability Annuity — A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled, is eligible for a disability annuity of 50% of the compensation received at the time of the disability.

Nonoccupational Disability Annuity — A participating employee totally and permanently disabled for causes not related to his/her occupation, and with no less than 10 years of credited service, is eligible for an annuity of 1.5% of the average compensation of the first 20 years of credited services increased by 2% for every additional year of credited service in excess of 20 years.

Death Benefits:

Occupational:

Surviving Spouse — annuity equal to 50% of the participating employee's salary at the date of the death.

Children — $10 per month for each child, minor or student, up to a maximum benefit per family of 100% of the participating employee's salary at the date of the death. If no spouse survives, or dies while receiving the annuity payments, each child, age 18 or under, is eligible to receive an annuity of $20 per month up to the attainment of 18 years of age or the completion of his/her studies.

Nonoccupational:

Beneficiary — the contributions and interest accumulated as of the date of the death plus an amount equal to the annual compensation at the time of death.

Postretirement — Beneficiary with surviving spouse age 60 or over and child, age 18 or under, up to 50% (60%, if not covered under Title II of the Social Security Act) of retiree's pension or otherwise the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $750.

Refunds — A participating employee who ceases his/her employment with the Commonwealth without right to a retirement annuity has the right to a refund of the contributions to the ERS, plus any interest earned thereon.

Amendments to Benefits Structure for Plan Members who Joined the ERS on or After April 1, 1990 — Act No. 1 of February 16, 1990, made certain amendments applicable to new participating employees joining the ERS effective April 1, 1990. These changes consist principally of an increase in the retirement age from 55 to 65, a decrease in the benefit percentage of the average compensation in the occupational disability and occupational death benefits annuities from 50% to 40%, and the elimination of the merit annuity for participating employees (except policemen and firemen) who have completed 30 years of creditable service.

Cost of Living Adjustment for Pension Benefits — Act No. 10 of May 21, 1992, provided for increases of 3% every three years, of the pensions paid by the ERS to those plan members with three or more years of retirement. The Act requires further legislation to grant this increase every three years, subject to the presentation of actuarial studies regarding its costs and the source of financing. Since fiscal year 1992 to 2007 there have been other acts addressing the cost of living allowance (C.O.L.A.) as Act No. 207 of August 13, 1995; Act No. 221 of August 9, 1998; Act No. 40 of June 13, 2001; Act No. 157 of June 27, 2003; and Act No. 35 of April 24, 2007.

On April 24, 2007, the Governor signed the Act No. 35 to provide for an increase of 3% of the pension paid by the ERS to those plan members whose monthly pension is less than $1,250, effective on July 1, 2008.

To protect the financial health of the ERS, the increases granted pursuant to the above laws are being financed through annual appropriations from the Commonwealth and contributions from municipalities and public corporations.

Other Benefits Granted — For fiscal years 2003 to 2007, the Commonwealth granted additional benefits to the ERS's retirees. As of June 30, 2011, these increases are being funded through special appropriations from the Commonwealth for the amount corresponding to the Commonwealth agencies and by contributions from the public corporations and municipalities.

Early Retirement Programs — During fiscal year 2008, the Commonwealth issued Act No. 70, dated July 13, 2007, to implement an early retirement program for the employees of the National Parks Company of Puerto Rico. The Municipality of San Juan issued Resolution No. 41, dated May 5, 2008, which provided an early retirement program for the municipalities' employees. Also, GDB implemented an early retirement program for its employees under the Act No. 188 of December 12, 2007. The National Parks Company of Puerto Rico has already made two payments and would reimburse the remaining balance on annuities and other benefits paid by the ERS in three installments on each July 31 starting on 2009 through 2012. The Municipality of San Juan will reimburse the annuities and other benefits paid by the ERS during a five-year period, plus the employer and employee contributions with respect to the plan members covered until they reach the normal retirement age.

The Land Authority of Puerto Rico (the "Land Authority") implemented an early retirement program for its employees under Law No. 59 of January 31, 2008. The Land Authority has already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the ERS in four installments on each July 31 starting on 2009 through 2012.

The Right to Employment Administration (the "Administration") implemented an early retirement program for its employees under Law No. 275 of December 31, 2008. The Administration already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the ERS in four installments on each July 31 starting on 2009 through 2012.

The Puerto Rico Environmental Quality Board (the "EQB") implemented an early retirement program for its employees under the Act No. 7 dated August 9, 2008. The EQB already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the ERS in four installments on each July 31 starting on 2009 through 2012.

The Puerto Rico Department of Labor and Human Resources (the "Department of Labor") implemented an early retirement program for its employees under the Law 136 dated July 29, 2008. The Department of Labor already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the ERS in four installments on each July 31 starting on 2009 through 2012.

Amendment to Act No. 447 Effective January 1, 2000, to Create System 2000 — On September 24, 1999, Law 305, an amendment to Act No. 447 of May 15, 1951, which created the ERS, was enacted to provide for a new benefit structure, similar to a cash balance plan, known as System 2000, to cover employees joining the ERS on or after January 1, 2000.

Employees participating in the ERS as of December 31, 1999, were allowed to elect either to stay in the defined benefit structure or transfer to System 2000. People joining the public sector on or after January 1, 2000, are only allowed to become members of System 2000. Under System 2000, contributions received from participants are pooled and invested by the ERS, together with the assets corresponding to the defined benefit structure. Future benefit payments under the original defined benefit structure and System 2000 will be paid from the same pool of assets. As a different benefit structure, System 2000 is not a separate plan, and as such, is not presented separately from the original defined benefit structure, pursuant to the provisions of GASB Statement No. 25. The Commonwealth does not guarantee benefits at retirement age.

The annuity benefits to participants is based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested as instructed by the employee in an account which either: (1) earns a fixed rate based on the two-year Constant Maturity Treasury Notes or, (2) earns a rate equal to 90% of the return of the ERS's investment portfolio (net of management fees), or (3) earns a combination of both alternatives. Plan members receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability benefits are not granted under System 2000 rather should be provided to those plan members that voluntarily elect to participate in a private insurance long-term disability program. The employers' contributions (9.275% of the employee's salary for 2011) with respect to employees under System 2000 will continue but will be used to fund the defined benefit plan. System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or after January 1, 2000.

At June 30, 2011, System 2000's membership consisted of 55,569 current participating employees.

Funding Policy — The contribution requirement to the ERS is established by law and is not actuarially determined. Required employers' contributions consist of 9.275% of applicable payroll in the cases of municipalities, central government, and public corporations. Required employee contribution consists of 5.775% of the first $550 of the monthly salary with the excess at 8.275% for the coordinated benefit structure and 8.275% of the total monthly salary for participating employee's contributions for the noncoordinated benefit structure. If necessary, additional non payroll related contributions from the Commonwealth should ultimately cover any deficiency between the participating employers' and employee's contributions and the ERS's pension benefit obligations and general and administrative deductions.

ERS, besides the contributions received from plan members and employers, also receives legislative appropriations from special laws to cover additional benefits and the increase in benefits to retired employees. In the past years, there have been laws that granted additional benefits, such as, summer and Christmas bonuses, and various increases in cost of living allowances (3%), among others.

Most of the funds used to cover these benefits are budgeted by the Commonwealth through legislative appropriations.

During the year ended June 30, 2011, ERS decreased the assumed rate of return from 7.5% in 2010 to 6.4% in 2011, which resulted in an increase of approximately $2.43 billion in the actuarial accrued liability.

(b) JRS

Plan Description — The Commonwealth of Puerto Rico Judiciary Retirement System (the "JRS") is a defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration (the "Administration") and was created by Act No. 12 on October 19, 1954 ("Act No. 12 of 1954"). The JRS is a pension trust fund of the Commonwealth and is not an employer. The JRS provides retirement benefits to the employees of the judiciary branch of the Commonwealth, through the office of the Administration of Court Facilities (the "Employer"). The JRS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The responsibility for the proper operation and administration of the JRS is vested on a board of trustees, composed of two participating employees and one pensioner, who are appointed by the Governor of the Commonwealth. Also, there are four Commonwealth government agency representatives, which are the Secretary of the Treasury, the President of the Government Development Bank for Puerto Rico, the Commissioner of Municipalities Affairs, and the Executive Director of the Human Resources Office of the Commonwealth of Puerto Rico.

As of June 30, 2011, the JRS has an unfunded actuarial accrued liability of approximately $318 million, representing a 16.7% funding ratio. In the opinion of management and based on information prepared by consulting actuaries, if measures are not taken now to deal with this situation, the JRS will not be able to fully fund pensions during fiscal year 2019. This situation could have a direct negative effect on the Commonwealth's general fund, since the Commonwealth is the plan sponsor and is obligated to make actuarial contributions to fund the JRS.

To address these issues, JRS and the Office of the Administration of Court Facilities ("the Employer") entered into an agreement to increase the employer contributions from 20% to 30.34%, effective on July 1, 2008. Employees' contributions consist of 8% of the employees' monthly salary. Contributions from the Commonwealth should ultimately cover any deficiencies between the employer's and employee contributions and JRS pension benefit obligation and administrative costs.

The successful implementation of these measures cannot be assured, as it dependent upon future events and circumstances whose outcome cannot be anticipated.

The JRS and the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), also a pension trust fund of the Commonwealth, are administered by the Administration. The Administration allocated 1.5317% of its general and administrative expenses to the JRS during the year ended June 30, 2011. The methodology used to determine the allocation of the Administration's expenses was based on total Employer and participating employees'

contributions to the JRS, divided by the aggregate total of employers and participants' contributions to the JRS and ERS, combined.

During the year ended June 30, 2011, the JRS liquidated investments of approximately $19 million to pay for administrative expenses charged by the Administration, covering several previous fiscal years.

The JRS consists of a single – employer defined benefit plan sponsored by the Commonwealth. Under the terms of Act No. 12 of 1954, as amended, all judges of the judiciary branch of the Commonwealth are plan member of the JRS.

Members of the JRS are eligible for the following benefits:

Retirement Annuity — Plan members with 10 years of credited service are eligible for retirement upon reaching 60 years of age.

Plan members are eligible for monthly benefit payments determined by the application of a stipulated benefit to the plan member's average compensation. Average compensation is computed based on the last month of compensation. The annuity for which a plan member is eligible, is limited to a minimum of 25% and a maximum of 75% of the average compensation, except for the judges of the Supreme Court for whom the annuity is limited to a minimum of 50% and a maximum of 100% of the average compensation received by the members of the Supreme Court.

Reversionary Annuity — A plan member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The payments would start after the death of the retiree, for an amount not less than $120 yearly or greater than the annuity payments being received by the retiree.

Occupational Disability Annuity — A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled, is eligible for a disability annuity of 50% of the compensation, received at the time of the disability.

Nonoccupational Disability Annuity — A participating employee totally and permanently disabled for causes not related to his/her occupation, and with no less than 10 years of credited service, is eligible for annuity of 30% of the average compensation of the first 10 years of credited services, increased by 1% for every additional year of credited service in excess of 10 years, up to a maximum of 50% of the average compensation.

Death Benefits:

Occupational:

- Surviving spouse — annuity equal to 50% of the participating employee's salary at the date of the death.
- Children — $10 per month for each child, minor or student, up to a maximum benefit per family of 75% of the participating employee's salary at the date of the death. If no spouse survives or dies while receiving the annuity payments, each child, 18 or under, is eligible to receive an annuity of $20 per month up to the attainment of 18 years of age or the completion of his/her studies.

Nonoccupational:

The contributions and interest accumulated as of the date of the death, plus an amount equal to the annual compensation at the time of the death.

Postretirement:

- Surviving spouse and child, 21 or under — up to 60% of the retiree's pension.
- Other designated by the retiree — the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $500.

Refunds — A participating employee who ceases his/her employment with the Commonwealth without right to a retirement annuity has the right to a refund of the contributions to the JRS, plus any interest earned thereon.

Cost of Living Adjustment for Pension Benefits — Act No. 177 of 1997 provides, effective January 1, 1999, for increases of 3%, every three years, of the pensions paid by the JRS to those plan members with three or more years of retirement. The Act requires further legislation to grant this increase every three years.

Funding Policy — The contributions to the JRS are established by law and are not actuarially determined. Required contributions consist of 30.34% of applicable payroll for the employer and 8% for the participating employees. Contributions from the Commonwealth should ultimately cover any deficiency between the employer's and employees' contributions and the JRS's pension benefit obligations and administrative costs.

During the year June 30, 2011, JRS decreased the assumed rate of return from 7.5% in 2010 to 6.6% in 2011, which resulted in an increase of approximately $30 million in the actuarial accrued liability.

(c) TRS

Plan Description — The Puerto Rico System of Annuities and Pensions for Teachers (the "TRS") is a defined benefit plan administered by the Puerto Rico Teachers Retirement System and was created by Act No. 91 of March 29, 2004, that superseded Act No. 218 of May 6, 1951. The TRS is considered an integral part of the Commonwealth's financial reporting entity and is included in the Commonwealth's basic financial statements as a pension trust fund. The TRS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974.

The responsibility for the proper operation and administration of the TRS is vested in a Board of Trustees (the "Board"), composed of nine members, as follows: three ex-official members, which are the Secretary of the Treasury, the Secretary of the Department of Education, and the President of GDB; one member who is a representative of a teacher's organization designated by the Governor; three teachers of TRS appointed by the Governor, one of which is a currently certified teacher in active service, and two who represented retired teachers; one member who is a representative of the entity in accordance with Act No. 45 of February 25, 1998, as amended; and one additional member, as representative of the public interest, with knowledge of and experience in the administration and operation of financial systems, appointed by the Governor.

As of June 30, 2011, TRS has an unfunded actuarial accrued liability of approximately $9 billion, resulting in a funding ratio of 21%. In the opinion of management, based on information prepared by consulting actuaries, if measures are not taken now to deal with this situation, TRS will not be able to fully fund pensions in fiscal years beginning after June 30, 2022. This situation could have a direct negative effect on the Commonwealth's general fund, since the Commonwealth is the ultimate plan sponsor and will be obligated to make actuarial contributions to fund TRS.

To attend to these issues, the Governor created the Special Commission on the Retirement Systems Reform (the "Commission") in 2010 to provide individual and/or group recommendations on actions that the executive and legislative branches can execute to provide immediate alternatives to ease the current crisis and long-term solutions to improve the financial condition of TRS.

On October 21, 2010, the Commission presented a report to the Governor that included specific recommendations addressing the current fiscal crisis and cash flow problems of TRS. Among these recommendations, the Commission proposed increasing the contribution percentages, restructuring benefits and establishing certain limitations on loans, among other.

After reviewing the Commission's report, TRS and the Commonwealth, with the assistance of the TRS's external consulting actuaries, concluded that annual increases in the employers' contribution rate will be required to fully fund pensions, without having to liquidate the TRS's investment portfolio. As a result of such determination, the Commonwealth approved Act No. 114 on July 5, 2011, establishing annual employer contribution increases of 1% for the fiscal years 2012 to 2016. In addition, it establishes annual employer contributions increases of 1.25% for the fiscal year 2017 to 2021.

The successful implementation of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

The TRS is a defined benefit plan sponsored by the Commonwealth. Substantially, all active teachers of the Commonwealth's Department of Education are covered by the TRS under the terms of Act No. 91 of March 29, 2004, that superseded Act No. 218 of May 6, 1951. The new law gives the Puerto Rico Teachers Retirement System's active employees as of March 29, 2004, the option to participate in the plan. Employees recruited by the Puerto Rico Teachers Retirement System after the approval of the new law become members of the plan. All active teachers of the Department of Education become plan members of the TRS at their date of employment. Licensed teachers working in private schools or other educational organizations can be members of the TRS at their own choice as long as the required employer and employee contributions are satisfied.

The plan members of the TRS are eligible for the benefits described below:

Retirement Annuity — Plan members are eligible for monthly benefit payments determined by the application of stipulated benefit ratios to the plan member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by the TRS. The annuity for which a plan member is eligible is limited to a minimum of $400 per month and a maximum of 75% of the average compensation.

The plan members are eligible for retirement annuity benefits upon complying with the following:

Age	Years of Creditable Services	Retirement Annuity Compensation
Fifty	30 or more	75% of average compensation
Under fifty	30 or more	65% of average compensation
Sixty	At least 10, but less than 25	1.8% of average compensation times years of service
Fifty	At least 25, but less than 30	1.8% of average compensation times years of service
Forty-seven but less than Fifty	At least 25, but less than 30	95% of the annual pension that would have received with 50 years of age

Deferred Retirement Annuity — A participating employee who terminates service before age 60, after having accumulated a minimum of ten years of creditable services, qualifies for a deferred retirement annuity payable beginning at age 60. A participating employee who has completed 25 or more years of creditable services and is under the age of 47 at termination, qualifies for a deferred retirement annuity payable beginning at age 47. The vested rights described above are provided if his/her contributions to the TRS are left within the TRS until the attainment of the respective retirement age.

Occupational Disability Annuity — A participating employee, who as a direct result of the performance of his/her occupation becomes disabled, is eligible for an annuity of 1.8% of average compensation based on the highest 60 months or the number of months of creditable services, if less than five years, recognized by the TRS, times years of creditable services; but not less than $400 per month.

Nonoccupational Disability Annuity — A participating employee disabled for causes not related to his/her occupation, and with at least five years of credited service, is eligible for an annuity of 1.8% of average compensation based on the highest 60 months recognized by the TRS, times years of service; but not less than $400 per month.

Death Benefits:

Pre-retirement — The beneficiaries receive the contributions made to the plan and 2% interest accumulated as of the date of death (after discounting debts with the TRS), plus an amount equal to the annual compensation of the member at the time of death.

Post-retirement — The surviving spouse receives 50% of the retiree's pension and if there are children under 22 years of age or disabled (until disability ceases), they receive the other 50% of the pension. If there is no surviving spouse or children who qualify, the beneficiaries receive the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $1,000.

Refunds — A participating employee who ceases his/her employment with the Commonwealth without the right to a retirement annuity has the right to a refund of the employee contributions paid to the TRS, plus any interest earned thereon.

Early Retirement Program — On January 27, 2000, Act No. 44 was approved, which provided that effective March 9, 2000, plan members are eligible for early retirement upon attaining the age of 50 and 28 years of services in the first year of implementation and age 50 and 25 years of service in subsequent years. Those who select early retirement under these conditions will receive monthly benefits equal to 75% of their average compensation, which is computed based on the highest 36 months of compensation recognized by the TRS. Effective July 31, 2001, the option for early retirement was closed.

Special Benefits — Special benefits include the following:

- Christmas Bonus — An annual bonus of $600 for each retiree and disabled member paid each December. The TRS pays $150 per retiree and disabled member and the remaining bonus is paid by the Commonwealth.

- Summer Bonus — An annual bonus of $100 for each retiree, beneficiary, and disabled member paid each July. This benefit is prorated if there are multiple beneficiaries and is funded by the Commonwealth.

- Medication Bonus — An annual bonus of $100 for each retiree, beneficiary, and disabled member paid each July to cover health costs. Evidence of coverage is not required. This benefit is funded by the Commonwealth.

- Cost-of-Living Adjustments — Act No. 62 of September 4, 1992 provided, subject to the approval of the Legislature of the Commonwealth (the "Legislature"), for increases of 3% every three years in pensions to those plan members with three or more years of retirement. In years 1995, 1998, 2001, 2004, and 2007, the Legislature has replicated the benefit granted per Act No. 62 of September 4, 1992. This benefit is funded by the Commonwealth.

- Other Pension Increase Acts. — Act No. 128 of June 10, 1967 and Act No. 124 of June 8, 1973 provided a pension increase (form 2% to 10%) based on the monthly pension, and Act No. 47 of June 1, 1984, provided a pension increase based on credited service worked. This increase is funded by the Commonwealth.

- Cultural Loans — Act No. 22 of June 14, 1965 provides 50% repay of the interest that would be required to pay from the actives teachers and retirees. This increase is funded by the Commonwealth.

- Death Benefit — Act No. 272 of March 29, 2004 increases the death benefit of $500 to $1,000. This $500 increase is funded by the Commonwealth.

Funding Policy — Participating employees are required to contribute 9% of their compensation to the TRS, while the employer was required to contribute 8.5% of the applicable payroll until June 30, 2011. However, Act No. 114 provides for annual employer contributions increases of 1% for the fiscal years 2012 to 2016, and 1.25% annually for the fiscal years 2017 to 2021. Commonwealth contributions should ultimately cover any deficiency between the participating employees' contributions and the TRS's pension benefit obligations and administrative costs.

The special contributions of approximately $47,753,000 in 2011 represent contributions from the general fund of the Commonwealth for special benefits granted by special laws.

During the year ended June 30, 2011, TRS decreased the assumed rate of return from 8% in 2010 to 6.4% in 2011, which resulted in an increase of approximately $1.9 billion in the actuarial accrued liability.

Other relevant information on the Commonwealth's Retirement Systems is presented below (as of June 30, 2011, for ERS, JRS, and TRS):

(d) Membership as of June 30, 2011

	ERS	JRS	TRS	Total
Retirees and beneficiaries currently receiving benefits	113,191	439	36,129	149,759
Current participating employees	135,972	362	43,402	179,736
Total	249,163	801	79,531	329,495

(e) Annual Pension Cost and Net Pension Obligation

The Commonwealth's annual pension cost and net pension obligation of the three pension plans as of and for the year ended June 30, 2011 were as follows (expressed in thousands):

	ERS	JRS	TRS	Total
Annual required contributions	$ 1,734,979	$ 29,684	$ 528,170	$ 2,292,833
Interest on net pension obligation	476,528	2,708	125,931	605,167
Adjustment to annual required sponsors' contributions	(555,326)	(3,279)	(103,701)	(662,306)
Annual pension cost	1,656,181	29,113	550,400	2,235,694
Statutory sponsors' contributions made	(701,709)	(10,955)	(161,628)	(874,292)
Increase in net pension obligation	954,472	18,158	388,772	1,361,402
Net pension obligation at beginning of year	6,353,700	36,110	1,574,140	7,963,950
Net pension obligation at end of year	$ 7,308,172	$ 54,268	$ 1,962,912	$ 9,325,352

The net pension obligation for ERS, JRS and TRS of $9.1 billion, is recorded in the accompanying statement of net assets (deficit).

The following tables show the most significant actuarial methods and assumptions used to estimate the net pension obligation:

	ERS	JRS	TRS
Date of latest actuarial valuation	June 30, 2011	June 30, 2011	June 30, 2011
Actuarial-cost method	Projected unit credit cost method with straight proration based on service to decrement	Projected unit credit cost method with straight proration based on service to decrement	Entry age normal
Amortization method	30 years closed, level dollar	30 years closed, level percentage of payroll	30 years closed, level percentage of payroll
Remaining amortization period	27 years	16 years	27 years
Amortization approach	Closed	Closed	Closed

The annual required contribution for the year ended June 30, 2011, was determined by actuarial valuations for each of the pension plans as described below:

	ERS	JRS	TRS
Asset-valuation method	Market value of assets	Market value of assets	Market value of assets
Actuarial assumptions:			
Inflation	2.5 %	2.5 %	2.5 %
Investment rate of return	6.4 %	6.6 %	6.4 %
Projected payroll growth	2.5 %	- %	- %
Projected salary increases per annum	3.0% (no increase in 2010-11)	3.0 %	3.5 % (general wage inflation, plus service — based merit increase)
Cost-of-living adjustments	0.99% annually to approximate 3.0% triennial increases	0.99% annually to approximate 3.0% triennial increases	None
Mortality	Pre-retirement Mortality: For general employees and Mayors, RP-2000 Employee Mortality Rates for males and females projected on a generational basis using Scale AA. For members covered under Act 127, RP-2000 Employee Mortality Rates with blue collar adjustments for males and females, projected on a generational basis using Scale AA. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act 127. For other members, 25% of deaths while in active service are assumed to be occupational and 75% are assumed to be non-occupational. Post-retirement Healthy Mortality: Gender-specific mortality rates were developed based on a study of plan's experience from 2003 - 2007. Sample rates shown below are as of 2005 and are thereafter projected on a generational basis using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date. Post-retirement Disabled Mortality: RP-2000 Disabled Annuitant Mortality Rates, without projection. No provision was made for future mortality improvement for disabled retirees.	Pre-retirement Mortality: RP-2000 Employee Mortality Rates with white collar adjustments for males and females, projected on a generational basis using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date. Among deaths while in active service, 50% are assumed to be occupational, 50% are assumed to be nonoccupational. Post-retirement Healthy Mortality: RP-2000 Healthy Annuitant Mortality Rates with white collar adjustments for males and females, projected on a generational basis using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date. Post-retirement Disabled Mortality: RP-2000 Disabled Annuitant Mortality Rates, without projection. No provision was made for future mortality improvement for disabled retirees.	Pre-retirement Mortality: RP-2000 Employee Mortality Rates for males and females, projected on a generational basis using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date. Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2004 to 2007. The rates are projected on a generational basis starting in 2005 using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date. Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2004 to 2007. No provision was made for future mortality improvement for disabled retirees.

The ERS, JRS, and TRS statutory contribution as a percentage of the required contribution for the current year and each of the two preceding years is as follows:

	ERS	JRS	TRS
Year ended June 30, 2011	40.44 %	36.90 %	30.60 %
Year ended June 30, 2010	36.60	39.13	34.87
Year ended June 30, 2009	47.23	50.03	43.88

(f) Three Year Trend Information

The three year trend information is as follows (dollars expressed in thousands):

	ERS	JRS	TRS
Annual pension cost (APC):			
Year ended June 30, 2011	$ 1,656,181	$ 29,113	$ 550,400
Year ended June 30, 2010	1,397,151	27,896	496,338
Year ended June 30, 2009	1,207,487	22,122	459,645
Percentage of APC contributed:			
Year ended June 30, 2011	42.4 %	37.6 %	29.4 %
Year ended June 30, 2010	38.2	39.5	33.5
Year ended June 30, 2009	49.2	50.2	42.0
Net pension obligation (asset):			
At June 30, 2011	$ 7,308,172	$ 54,268	$ 1,962,912
At June 30, 2010	6,353,700	36,110	1,574,140
At June 30, 2009	5,490,824	19,220	1,244,186

(g) Funded Status

Funded status of the pension plans as of June 30, 2011, the most recent actuarial valuation date, is as follows (dollars expressed in thousands):

	ERS	JRS	TRS	Total
Actuarial accrued liability	$ 25,457,354	$ 382,776	$ 11,448,609	$ 37,288,739
Actuarial value of assets	1,723,811	63,975	2,385,863	4,173,649
Unfunded actuarial accrued liability	$ 23,733,543	$ 318,801	$ 9,062,746	$ 33,115,090
Funded ratio	6.8 %	16.7 %	20.8 %	11.2 %
Covered payroll	$ 3,666,402	$ 31,811	$ 1,320,400	$ 5,018,613
Unfunded actuarial accrued liability as a percentage of covered payroll	647.3 %	1002.2 %	686.4 %	659.9 %

The schedule of funding progress presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations.

21. OTHER POSTEMPLOYMENT BENEFITS

The Commonwealth provides postemployment healthcare benefits through defined benefit plans that are administered by the Retirement Systems:

- Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution (ERS MIPC)
- The Puerto Rico Judiciary Retirement System Medical Insurance Plan Contribution (JRS MIPC)
- Puerto Rico System of Annuities and Pensions for Teachers Medical Insurance Plan Contribution (TRS MIPC)

(a) Plans Descriptions

ERS MIPC is a cost sharing multiple employer defined benefit other postemployment benefit (OPEB) plan sponsored by the Commonwealth. JRS MIPC and TRS MIPC are single employer defined benefit OPEB plans sponsored by the Commonwealth. These OPEB plans were created under Act No. 95 approved on June 29, 1963. Healthcare benefits are provided through insurance companies whose premiums are paid by the retiree with the Commonwealth providing a matching share. ERS MIPC covers substantially all full time employees of: (1) the Commonwealth's primary government and (2) certain municipalities of Puerto Rico and certain component units of the Commonwealth not having their own postemployment benefit plan. JRS MIPC covers all judges of Judiciary Branch of the Commonwealth. TRS MIPC covers all active teachers of the Department of Education of the Commonwealth.

Commonwealth employees become plan members upon their date of employment. Plan members are eligible for benefits upon reaching the following age:

ERS MIPC
Police and Firemen

50 with 25 years of credited service
58 with 10 years of credited service

Other Employees

55 with 25 years of credited service
58 with 10 years of credited service

JRS MIPC

60 with 10 years of credited service

TRS MIPC

47 with 25 years of credited service
60 with 10 years of credited service

Funding Policy — The contribution requirement of ERS MIPC, JRS MIPC and TRS MIPC are established by Act No. 95 approved on June 29, 1963. The benefits are paid directly by the Commonwealth to the insurance providers at a rate of a maximum of $100 per month per retiree. All

these OPEB plans are financed on a pay-as-you-go basis. There is no contribution requirement for plan member during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution.

(b) Membership as of June 30, 2011

	ERS MIPC	JRS MIPC	TRS MIPC	Total
Retirees and beneficiaries currently receiving benefits	113,191	439	36,129	149,759
Current participating employees	135,972	362	43,402	179,736
Total	249,163	801	79,531	329,495

(c) Annual OPEB costs and Net OPEB obligation

The annual OPEB cost and the annual required contribution (ARC) were computed as part of an actuarial valuation in accordance with parameters of GASB Statement No. 45 based on current years demographic data.

The Commonwealth's annual OPEB cost and the net OPEB obligation for the postemployment healthcare benefits plans as of and for the year ended June 30, 2011 were as follows (expressed in thousands):

	ERS MIPC	JRS MIPC	TRS MIPC	Total
Annual OPEB cost:				
ARC	$ 129,395	$ 529	$ 39,925	$ 169,849
Interest on net OPEB obligation	3,878	21	1,405	5,304
Adjustment to annual required contribution	(5,937)	(37)	(1,439)	(7,413)
Annual OPEB cost	127,336	513	39,891	167,740
Statutory sponsor's contributions made	(93,541)	(310)	(31,558)	(125,409)
Increase in net OPEB obligation	33,795	203	8,333	42,331
Net OPEB obligation at beginning of year	96,946	526	35,115	132,587
Net OPEB obligation at year end	$ 130,741	$ 729	$ 43,448	$ 174,918

The net OPEB obligation for ERS MIPC, JRS MIPC, and TRS MIPC totaling $173 million is recorded in the accompanying statement of net assets (deficit).

(d) Actuarial Assumptions

Actuarial valuations of an ongoing plan involve estimates of the net value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continuous revision as actual results are compared with past expectations and new estimates are made about the future.

	ERS MIPC	JRS MIPC	TRS MIPC
Date of latest actuarial valuation	June 30, 2011	June 30, 2011	June 30, 2011
Actuarial-cost method	Projected unit credit cost method with straight proration based on service to decrement	Projected unit credit cost method with straight proration based on service to decrement	Entry age normal
Amortization method	30 years closed, level dollar	30 years closed, level percentage of payroll	30 years closed, level percentage of payroll
Discount rate	4%	4%	4%
Projected payroll growth	-	3%	-
Projected salary increases	-	-	3.5% general wage inflation plus a service based merit increase
Inflation	-	-	2.5%
Remaining amortization period	27 years	16 years	27 years
Amortization approach	Closed	Closed	Closed

The ERS MIPC, JRS MIPC, and TRS MIPC statutory contributions as a percentage of the required contribution for the current year and each of the two preceding years are as follows:

	ERS MIPC	JRS MIPC	TRS MIPC
Year ended June 30, 2011	72.29 %	58.64 %	79.04 %
Year ended June 30, 2010	66.61	60.41	66.91
Year ended June 30, 2009	77.67	61.36	73.19

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projections of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The actuarial calculations reflect a long–term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short–term volatility in actuarial accrued liabilities and actuarial value of assets.

(e) Three Year Trend Information

The three year trend information is as follows (dollars expressed in thousands):

	ERS MIPC	JRS MIPC	TRS MIPC
Annual OPEB cost:			
Year ended June 30, 2011	$ 127,336	$ 513	$ 39,891
Year ended June 30, 2010	127,189	479	42,495
Year ended June 30, 2009	111,100	421	38,033
Percentage of annual OPEB cost contributed:			
Year ended June 30, 2011	73.4 %	60.4 %	79.1 %
Year ended June 30, 2010	67.0	61.5	66.9
Year ended June 30, 2009	78.0	62.0	73.2
Net OPEB obligation:			
At June 30, 2011	$ 130,741	$ 729	$ 43,448
At June 30, 2010	96,946	526	35,115
At June 30, 2009	55,217	342	21,047

(f) Funded Status

Funded status of the postemployment healthcare benefit plans as of June 30, 2011, the most recent actuarial valuation date, is as follows (expressed in thousands):

	ERS MIPC	JRS MIPC	TRS MIPC	Total
Actuarial accrued liability (AAL)	$ 1,758,389	$ 5,810	$ 706,069	$ 2,470,268
Actuarial value of assets	-	-	-	-
Unfunded actuarial accrued liability	$ 1,758,389	$ 5,810	$ 706,069	$ 2,470,268
Funded ratio	- %	- %	- %	- %
Covered payroll	$ 3,666,402	$ 31,811	$ 1,320,400	$ 5,018,613
Unfunded actuarial accrued liability as a percentage of covered payroll	48.0 %	18.3 %	53.5 %	49.2 %

The schedule of funding progress presented as required supplementary information following the notes to the basic financial statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

22. DEBT SERVICE DEPOSIT AGREEMENTS

On May 26, 2005 (but effective on July 1, 2005), the Commonwealth, PFC, and GDB (together the Commonwealth) and Lehman Brothers Special Financing Inc. (Lehman) entered into Debt Service Deposit Agreements (DSD Agreements), the objective of which was for the Commonwealth to secure an upfront payment in exchange for granting Lehman the rights to earnings generated from eight of its debt service funds. On September 25, 2008, as a result of Lehman commencing a case in the United States Bankruptcy Court for the Southern District of New York under chapter 11 of the United States Code, Lehman selected Hexagon Securities LLC to act as the Qualified Dealer under the DSD Agreements and

delivered Qualified Securities as permitted under the DSD Agreement. Seven of the funds are associated with the Commonwealth's PFC bonds, presented in the accompanying basic financial statements as Commonwealth appropriation bonds, and one fund is associated with the Commonwealth's general obligation bonds. The upfront payment, which amounted to $82.7 million, was received on May 26, 2005 and equaled the present value of the projected earnings income adjusted for credit timing risks as well as an appropriate amount of compensation for Lehman.

With the upfront payment made as explained above, the Commonwealth delivered to Lehman the required and scheduled debt service deposits and Lehman delivered qualified government debentures, which will mature before the next debt service payment date at an amount approximating such next debt service payment. Lehman will attempt to earn sufficient funds on the debt service deposit amounts, less its cost for the qualified government debentures, to make back the $82.7 million over time. At the same time, the Commonwealth will be managing its borrowings and investments by increasing the predictability of its cash flows from earnings on its investments and not for purpose of speculation. The Commonwealth acknowledges that, in exchange for the upfront payment received, it is foregoing its right to receive investment earnings on the deposit amounts referred to above in the future and that, by accepting the upfront payment, the Commonwealth has minimized the risks resulting from fluctuations in interest rates during the term of the DSD Agreements but also has foregone the possibility of receiving greater returns on such amounts from such fluctuations.

Under the DSD Agreements, the Commonwealth will be exposed to the payment to Lehman of a Termination Amount, as defined in the agreement, principally upon the occurrence of redemption or a defeasance of the related bonds on or prior to the last scheduled deposit date. The amount of the Termination Amount will vary depending on various market conditions, as defined in the DSD Agreements. Under certain market conditions, the Termination Amount owed to Lehman by the Commonwealth may exceed the amount of the original upfront payment received.

The $82.7 million upfront payment received by the Commonwealth was recognized as other revenue for budgetary purposes in 2005; however, under U.S. Generally Accepted Accounting Principles, such upfront payment was deferred and is being recognized proportionally over the future periods the Commonwealth would have otherwise earned such interest earnings. Unamortized balance amounted to approximately $46.1 million at June 30, 2011. During fiscal year 2011, approximately $6 million was amortized into other revenue in the accompanying statement of activities.

23. DERIVATIVE INSTRUMENTS

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2011, classified by type, and the changes in fair value of such derivative instruments for the fiscal year then ended as reported in the 2011 basic financial statements are as follows (in thousands):

	Item		Changes in Fair Value (1) Classification	Amount	Fair Value at June 30, 2011 (2) Classification	Amount		Notional
Governmental activities								
Cash flow hedges:								
1	Pay-fixed interest rate swap	(4)	Deferred Outflow	$ 10,209	Debt	$(38,234)		$ 280,000
2	Pay-fixed interest rate swap		Deferred Outflow	2,188	Debt	(7,247)	(5)	56,000
3	Pay-fixed interest rate swap		Deferred Outflow	2,492	Debt	(7,795)	(5)	56,000
4	Pay-fixed interest rate swap		Deferred Outflow	1,363	Debt	(3,728)	(5)	44,500
5	Pay-fixed interest rate swap		Deferred Outflow	2,265	Debt	(1,105)		32,815
6	Pay-fixed interest rate swap		Deferred Outflow	2,240	Debt	(1,124)		32,625
7	Pay-fixed interest rate swap		Deferred Outflow	2,106	Debt	(1,013)		31,280
8	Pay-fixed interest rate swap		Deferred Outflow	1,928	Debt	(941)		30,005
9	Pay-fixed interest rate swap	(4)	Deferred Outflow	514	Debt	(2,006)	(5)	14,925
10	Pay-fixed interest rate swap	(4)	Deferred Outflow	514	Debt	(2,004)	(5)	14,915
11	Pay-fixed interest rate swap		Deferred Outflow	(422)	Debt	(422)		2,650
12	Pay-fixed interest rate swap		Deferred Outflow	(1,124)	Debt	(1,124)		7,500
13	Pay-fixed interest rate swap		Deferred Outflow	702	Debt	(1,940)	(5)	14,925
14	Pay-fixed interest rate swap		Deferred Outflow	701	Debt	(1,938)	(5)	14,915
15	Pay-fixed interest rate swap		Deferred Outflow	(3,568)	Debt	(27,169)		196,770
16	Pay-fixed interest rate swap	(3)	Deferred Outflow	9,834	Debt	(37,222)		136,000
Investment derivative instruments:								
17	Pay-fixed interest rate swap	(4)	Investment Revenue	(15,133)	Investment	(15,133)	(5)	114,071
18	Pay-fixed interest rate swap	(4)	Investment Revenue	(11,361)	Investment	(11,361)	(5)	83,314
19	Basis Swap		Investment Revenue	28,424	Investment	(33,920)	(5)	1,273,778
20	Basis Swap		Investment Revenue	9,454	Investment	(11,820)	(5)	424,592
21	Forward swap	(4)	Investment Revenue	459	Investment	(4,076)		29,165
22	Forward swap	(4)	Investment Revenue	569	Investment	(5,058)		40,000
23	Forward swap	(3)	Investment Revenue	12,881	Investment	(84,877)		453,500
24	Forward swap	(3)	Investment Revenue	9,528	Investment	(88,626)		453,500

(1) Positive (negative) values represent decrease (increase) in fair value.
(2) Negative values represent the Commonwealth's payable positions. Fair value on swap excludes its accrued interest receivable or payabl
(3) Derivative instrument corresponds to Puerto Rico Sales Tax Financing Corporation ("COFINA"). Other derivative instruments correspond to the Commonwealth of Puerto Rico.
(4) Insured swap.
(5) Amortizing swaps. The notional amounts of the hedging swaps match the principal amount of the associated debt. The hedging swap agreements contain scheduled reductions to outstanding notional amounts that follow scheduled reductions in the associated debt.

The fair values of the pay-fixed interest rate swaps and the basis swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swaps. The fair values of the forward swaps were estimated based on the present value of their estimated future cash flows.

Accrued interest payable on swaps are presented separately from the fair values of the swaps in the Commonwealth's government-wide statement of net assets and in the governmental funds- balance sheet and amounted to $15 million at June 30, 2011.

The following table shows the derivative instrument position by counterparty at June 30, 2011 (in thousands):

	Total	
Counterparty/Swap	**Notional Amount**	**Fair Value**
Deutsche Bank AG	$ 156,500	$ (18,771)
Goldman Sachs Capital Markets	1,409,778	(71,142)
Morgan Stanley Capital Services Inc.	1,044,807	(110,184)
Royal Bank of Canada	29,840	(3,878)
UBS AG	196,770	(27,169)
Bank of New York	349,165	(47,368)
DEPFA BANK plc	567,571	(100,010)
Merrill Lynch Capital Services, Inc.	83,314	(11,361)
Total	$ 3,837,745	$ (389,883)

Hedging Derivative Instruments

The following table displays the objective and terms of the Commonwealth's hedging derivative instruments outstanding at June 30, 2011, along with the credit rating of the associated counterparty (amounts in thousands):

Item	Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms Pays	Terms Receives	Counterparty Credit Rating Moody's/S&P
1	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2003 Series C-4, C-5-1 and C-5-2 bonds	$ 280,000	7/1/2008	7/1/2021	3.7658 %	67% 1M LIBOR	Aaa/AA
2	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2004 Series B-2 bonds	56,000	11/10/2008	7/1/2024	3.5820	59.80% 1M LIBOR + 0.25%	Aa3/A+
3	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2004 Series B-3 bonds	56,000	11/10/2008	7/1/2027	3.5590	58.30% 1M LIBOR + 0.24%	Aa3/A+
4	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2004 Series B-1 bonds	44,500	11/10/2008	7/1/2021	3.3080	59.80% 1M LIBOR + 0.25%	Aa3/A+
5	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2006 Series A bonds	32,815	8/10/2006	7/1/2021	4.2000	CPI+.90%	A2/A
6	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2006 Series A bonds	32,625	8/10/2006	7/1/2020	4.3200	CPI+1.02%	A2/A
7	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2006 Series A bonds	31,280	8/10/2006	7/1/2019	4.2900	CPI+1.00%	A2/A
8	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2006 Series A bonds	30,005	8/10/2006	7/1/2018	4.2600	CPI+.98%	A2/A
9	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2007 Series A3 bonds	14,925	10/16/2007	7/1/2029	3.5180	66% 1M LIBOR	A2/A
10	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2007 Series A2 bonds	14,915	10/16/2007	7/1/2029	3.5180	66% 1M LIBOR	A2/A
11	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2011 Series B bonds	2,650	10/16/2007	7/1/2034	3.5180	66% 1M LIBOR	A2/A
12	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2011 Series B bonds	7,500	10/16/2007	7/1/2034	3.5180	66% 1M LIBOR	A2/A
13	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2007 Series A3 bonds	14,925	10/16/2007	7/1/2029	3.5180	66% 1M LIBOR	Aa1/AA-
14	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2007 Series A2 bonds	14,915	10/16/2007	7/1/2029	3.5180	66% 1M LIBOR	Aa1/AA-
15	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2007 Series A2 and A3 bonds and Series 2011 B bonds	196,770	10/16/2007	7/1/2034	3.5180	66% 1M LIBOR	Aa3/A+
16	Pay-fixed interest rate swap	Hedge of changes in cash flows on the COFINA 2007 Series A bonds	136,000	7/31/2007	8/1/2057	4.9200	67% 3M LIBOR +0.93%	A1/A

LIBOR: London Interbank Offered Rate Index
CPI: Consumer Price Index

For derivative instruments No. 5, 6, 7, and 8, the floating interest rate, CPI plus a spread (the rate to receive), is capped to the maximum rate permitted by Commonwealth law (12% as of June 30, 2011). This cap is equal to the cap in the hedged bond. Other swaps do not have embedded options.

During the year ended June 30, 2011, the Commonwealth terminated various hedging derivative instruments with notional amount of $505.0 million and recorded a deferred refunding loss of $67.7 million, which approximates the fair value of the swaps at the refunding date. In addition, derivative instruments No. 11, 12, and 15 were reassigned to a new hedging relationship on March 1, 2011 when the old hedging relationship was refunded with the new hedging relationship. The fair values of these derivative instruments at the inception of the new hedging relationships amounted to $8.8 million and are amortizing on a straight line basis over the life of the corresponding derivative instrument which equals the life of the hedged bond.

Risks

Credit Risk — The Commonwealth is exposed to credit risk on hedging derivative instruments that are in asset positions. When the fair value of a derivative contract is positive, the counterparty owes the Commonwealth, which creates a credit risk for the Commonwealth. When the fair value of the derivative contract is negative, the Commonwealth owes to the counterparty and, therefore, does not pose credit risk to the Commonwealth.

The Commonwealth has sought to limit its counterparty risk by contracting only with highly rated entities or requiring guarantees of the counterparty's obligations under the swap documents. In addition, to minimize its exposure to loss related to credit risk, it is the Commonwealth's policy to require counterparty collateral posting provisions in its derivative instruments. These terms require collateralization of the fair value of hedging derivative instruments in asset position (net of the effect of applicable netting arrangements) in excess of certain agreed threshold should the counterparty's credit rating fall below the following:

The counterparty with respect to derivative instruments No. 2, 3, and 4 is required to post collateral for the full amount of the fair value of the derivative instrument if the credit rating goes below A2 (Moody's) or A (Standard & Poor's). Each of the counterparties with respect to other derivative instruments is required to post collateral in excess of certain agreed upon thresholds (which decrease from $20.0 million to zero (full collateralization), depending on the credit rating) once the counterparty's credit rating goes below Aa3 (Moody's Investor Service) or AA- (Standard & Poor's). Collateral posted is to be in the form cash, U.S. Treasury securities, or specified Agencies securities. The Commonwealth has never failed to access collateral when required.

It is the Commonwealth's policy to enter into netting arrangements whenever it has entered into more than one derivative instrument transaction with counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, closeout netting provisions permit the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the non-defaulting party.

At June 30, 2011, none of the hedging derivative instruments by counterparty was in an asset position. Thus, the Commonwealth had no aggregate counterparty credit exposure neither netting arrangements as of that date.

Interest Rate Risk — The Commonwealth is exposed to interest rate risk on its swaps. On its pay-fixed, receive-variable interest rate swap, as LIBOR or the Consumer Price Index (CPI) decreases, the Commonwealth's net payment on the swap increases. Additionally, as long-term LIBOR and CPI rates decrease, the fair values of the derivative instruments in liability positions decrease.

Basis Risk — The Commonwealth is exposed to basis risk on most of its pay-fixed interest rate swaps because the variable-rate payments received by the Commonwealth on these hedging derivative instruments are based on a rate or index other than interest rates the Commonwealth pays on its hedged variable-rate debt, which is remarketed or reset daily, weekly or monthly. Under the terms of its synthetic fixed rate swap transactions, the Commonwealth pays a variable rate on its bonds based on Securities Industry and Financial Markets Association Index (SIFMA) or Prime Rate but receives a variable rate on the swaps based on a percentage of LIBOR.

Termination Risk — The Commonwealth or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. The Commonwealth is at risk that the counterparty will terminate a swap at a time when the Commonwealth owes a termination payment to the counterparty. The Commonwealth has mitigated this risk by specifying that the counterparty has the right to terminate only as a result of certain events, including: a payment default by the Commonwealth; other Commonwealth defaults which remain uncured for 30 days after notice; Commonwealth bankruptcy; insolvency of the Commonwealth (or similar events); or a downgrade of the Commonwealth's credit ratings below Ba1 as issued by Moody's Investor Service or BB+ by Standard & Poor's for the majority of the derivative instruments. The derivative instruments that are insured by Assured Guaranty Municipal Corp. (derivative instruments No. 1, 9, and 10) may not be terminated by the counterparty unless an Insurer Event has occurred (i.e., Insurer's credit ratings fall below A3 by Moody's Investor Service or A- by Standard & Poor's) and the Commonwealth's credit ratings are downgraded below Ba1 as issued by Moody's Investor Service or BB+ by Standard & Poor's. If at the time of termination, a hedging derivative instrument is in a liability position, the Commonwealth would be liable to the counterparty for a payment equal to the liability's value as determined in accordance with the swap agreement provisions, subject to netting arrangements.

Counterparty Risk — The Commonwealth is at risk that a counterparty (or its guarantor) will not meet its obligations under the swap. If counterparty were to default under its agreement when the counterparty would owe a termination payment to the Commonwealth, the Commonwealth may have to pay another entity to assume the position of the defaulting counterparty. The Commonwealth has sought to limit its counterparty risk by contracting only with highly rated entities or requiring guarantees of the counterparty's obligations under the swap documents.

Rollover Risk — The Commonwealth is exposed to rollover risk on hedging derivative instruments that mature or may be terminated prior to the maturity of the hedged debt, thus re-exposing the Commonwealth to the risk being hedged. None of the Commonwealth's hedging derivative instruments matures or may be terminated prior to the maturity of the hedged debt.

Investment Derivative Instruments — The following table displays the terms of the Commonwealth's investment derivative instruments outstanding at June 30, 2011, along with the credit rating of the associated counterparty (amounts in thousands):

Item	Type	Notional Amount	Effective Date	Maturity Date	Terms Pays	Receives	Counterparty Credit Rating Moody's/S&P
17	Pay-fixed interest rate swap	$ 114,071	7/1/2008	7/1/2028	3.6815 %	67% 1M LIBOR	Baa3/BBB
18	Pay-fixed interest rate swap	83,314	7/1/2008	7/1/2024	3.6815 %	67% 1M LIBOR	A2/A
19	Basis Swap	1,273,778	7/10/2007	7/1/2035	SIFMA	67% 3M LIBOR + 0.4409%	A1/A
20	Basis Swap	424,592	7/5/2007	7/1/2035	SIFMA	67% 3M LIBOR + 0.4409%	A2/A
21	Forward swap	29,165	7/1/2012	7/1/2031	3.8510 %	67% 1M LIBOR	Aaa/AA
22	Forward swap	40,000	7/1/2012	7/1/2031	3.7684 %	67% 1M LIBOR	Aaa/AA
23	Forward swap	453,500	2/1/2012	8/1/2040	3.9500 %	67% 3M LIBOR	Baa3/BBB
24	Forward swap	453,500	2/1/2012	8/1/2040	3.9500 %	67% 3M LIBOR	A2/A

None of the investment derivative instruments have embedded options.

The Commonwealth entered into the basis swaps (derivative instruments No. 19 and 20) to hedge the portion of the fair value of the underlying liabilities attributable to the relative value/basis risk between tax-exempt and taxable rates, which can be expressed as a ratio. At June 30, 2011 and 2010, management of the Commonwealth concluded that these basis swaps were not considered as effective hedge instruments under GASB Statement No. 53. In addition, the Commonwealth and COFINA entered into the forward swaps (derivative instruments No. 21, 22, 23, and 24) in connection with the expected issuance of certain variable rate bonds. Due to changes in the market conditions since the Commonwealth and COFINA entered into these swaps, the occurrence of this expected transaction is not deemed probable and, accordingly, these forward swap agreements have been classified as investment derivative instruments at June 30, 2011 and 2010.

On June 1, 2011, the 2003 Series C-6 bonds associated with the derivative instruments No. 17 and 18 were converted from a SIFMA rate mode (SIFMA plus 1.70%) to a LIBOR rate mode (100% of 1 Month LIBOR plus 2.70%). At June 30, 2011, these hedging relationships no longer met the criteria for effectiveness and therefore, they were reclassified to investment derivative instruments. Accordingly, their deferral amounts at June 30, 2010 and the decreases in fair values of the swaps from June 30, 2010 to June 30, 2011 totaling $26.5 million are reported within the investment revenue classification in the Commonwealth's government-wide statement of activities.

Risks

Credit Risk — The Commonwealth is exposed to credit risk on investment derivative instruments that are in asset positions. When the fair value of a derivative contract is positive, the counterparty owes the Commonwealth, which creates a credit risk for the Commonwealth. When the fair value of the derivative contract is negative, the Commonwealth owes to the counterparty and, therefore, does not pose credit risk to the Commonwealth.

The Commonwealth has sought to limit its counterparty risk by contracting only with highly rated entities or requiring guarantees of the counterparty's obligations under the swap documents. In addition, to minimize its exposure to loss related to credit risk, it is the Commonwealth's policy to require counterparty collateral posting provisions in its derivative instruments. These terms require collateralization of the fair value of investment derivative instruments in asset position (net of the effect of applicable netting arrangements) in excess of certain agreed upon thresholds (which range from $20.0 million to zero (full collateralization) depending on the credit rating) once the credit rating of the counterparty goes below Aa3 (Moody's Investor Service) or AA- (Standard & Poor's). Collateral posted

is to be in the form cash, U.S. Treasury securities, or specified Agency securities. The Commonwealth has never failed to access collateral when required.

It is the Commonwealth's policy to enter into netting arrangements whenever it has entered into more than one derivative instrument transaction with counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, closeout netting provisions permit the nondefaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the non-defaulting party.

At June 30, 2011, none of the investment derivative instruments by counterparty was in an asset position. Thus, the Commonwealth had no aggregate counterparty credit exposure neither netting arrangements as of that date.

Interest Rate Risk — The Commonwealth is exposed to interest rate risk on its swaps. On its pay-fixed, receive-variable interest rate swaps, as LIBOR rates decrease, the Commonwealth's net payment on the swap increases. Additionally, as long-term LIBOR rates decrease, the fair values of these derivative instruments in liability positions decrease. On its forward starting pay-fixed, receive-variable interest rate swaps, as LIBOR rates decrease, the fair value of the swap increases. On its basis swaps, as LIBOR increases and/or SIFMA trades a higher percentage of LIBOR, the Commonwealth's net payment on the basis swap increases. Additionally, as long-term LIBOR rates decrease and/or long-term SIFMA/LIBOR ratios increase, the fair values of the basis swaps in liability positions decrease.

Counterparty Risk — The Commonwealth is at risk that a counterparty (or its guarantor) will not meet its obligations under the swap. If counterparty were to default under its agreement when the counterparty would owe a termination payment to the Commonwealth, the Commonwealth may have to pay another entity to assume the position of the defaulting counterparty. The Commonwealth has sought to limit its counterparty risk by contracting only with highly rated entities or requiring guarantees of the counterparty's obligations under the swap documents.

Termination Risk — The Commonwealth or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. The Commonwealth is at risk that counterparty will terminate a swap at a time when the Commonwealth owes a termination payment to the counterparty. The Commonwealth has mitigated this risk by specifying that the counterparty has the right to terminate only as a result of certain events, including: a payment default by the Commonwealth; other Commonwealth defaults which remain uncured for 30 days after notice; Commonwealth bankruptcy; insolvency of the Commonwealth (or similar events); or a downgrade of the Commonwealth's credit ratings below Ba1 as issued by Moody's Investor Service or BB+ by Standard & Poor's for the majority of the derivative instruments. The derivative instruments that are insured by Assured Guaranty Municipal Corp. (derivative instruments No. 21) may not be terminated by the counterparty unless an Insurer Event has occurred (i.e., Insurer's credit ratings fall below A3 by Moody's Investor Service or A- by Standard & Poor's) and the Commonwealth's credit ratings are downgraded below Ba1 as issued by Moody's Investor Service or BB+ by Standard & Poor's. If at the time of termination, an investment derivative instrument is in a liability position, the Commonwealth would be liable to the counterparty for a payment equal the liability's value as determined in accordance with the swap agreement provisions, subject to netting arrangements.

Collateral Posting Requirements and Contingencies — All of the Commonwealth's derivative instruments, except for the Commonwealth's derivative instruments that are insured by Assured Guaranty Municipal Corp. and the COFINA's derivative instruments No. 16 and 23, include provisions that require the Commonwealth and COFINA to post collateral in excess of certain agreed upon thresholds (that range from $30.0 million to $50.0 million) in the event its credit rating falls below Baa1

(Moody's Investor Service) or BBB+ (Standard & Poor's). If the Commonwealth or the COFINA's credit rating falls below Baa3 (Moody's) or BBB- (Standard & Poor's), they are required to post collateral of 100% of their payable positions. The collateral posted is to be in the form of cash, U.S. Treasury securities, or specified Agency securities in the amount equal to in the form of cash, or greater to in the form of securities of the fair value of derivative instruments in liability positions net of the effect of applicable netting arrangements and applicable thresholds. If the Commonwealth or COFINA does not post collateral, the derivative instrument may be terminated by the counterparty.

At June 30, 2011, the aggregate fair value of the Commonwealth's derivative instruments with these collateral posting provisions (uninsured or where an Insurer Event has occurred) was $(134.9) million. The Commonwealth's credit rating as of June 30, 2011 was A3 (Moody's) and BBB (Standard & Poor's). Since the aggregate fair value of these derivative instruments was below each of the corresponding thresholds with the counterparties, the Commonwealth was not required to post collateral as of June 30, 2011.

At June 30, 2011, the fair value of the COFINA's derivative instrument with this collateral posting provision (derivative instrument No. 24) was $(88.6) million. Since COFINA's credit rating as of June 30, 2011 was A1 (Moody's) and A+ (Standard & Poor's), no collateral was required to be posted as of that date.

24. FUND BALANCE (DEFICIT)

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* the classification of Fund Balance is based on the extent to which the Commonwealth is bound to observe constraints imposed upon the use of resources in the governmental funds. The classifications are as follows:

Nonspendable — includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints requiring such amounts to remain intact.

Restricted — includes fund balance amounts that are constrained for specific purposes which are externally imposed by creditors (such as through debt covenants), laws or regulations of other governments, or constrained due to constitutional provisions or enabling legislation.

Committed — includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government's formal action at the highest level of decision making authority and does not lapse at year-end. The highest level of decision authority for the Commonwealth is the Legislature and the Governor.

In accordance with the Commonwealth's Constitution, the Governor is required to submit to the Legislature an annual balanced budget of the Commonwealth for the ensuing fiscal year. The Legislature may amend the budget submitted by the Governor but may not increase any items so as to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. Upon passage by the Legislature, the budget is referred to the Governor who may decrease or eliminate any line item but may not increase or insert any new line item in the budget. The Governor may also veto the budget in its entirety and return it to the Legislature with his objections. The Legislature, by two thirds majority in each house, may override the Governor's veto. If a budget is not adopted prior to the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Legislature and the Governor, is automatically renewed for the ensuing fiscal year until a new budget is approved by the Legislature and the Governor. The Office of Management and Budget, which respond to the Governor as part of the

Commonwealth's Executive Branch, has authority to amend the budget within a department, agency, or government unit without legislative approval.

Assigned — includes fund balance amounts that are constrained by the Commonwealth Legislature and the Governor and are intended to be used for specific purposes that are neither considered restricted or committed.

Unassigned — is the residual classification for the General Fund. In a governmental fund other than the General Fund, a negative amount indicates that the expenditures incurred for a specific purpose exceeded the amounts in the fund that are restricted, committed and assigned to that purpose.

The Commonwealth uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available, unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, unless required by law or agreement, the Commonwealth would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Commonwealth does not have a formal minimum fund balance policy.

Below is the detail included in the fund balance (deficit) classifications for the governmental funds at June 30, 2011 (expressed in thousands):

	General	Debt Service	COFINA Special Revenue	COFINA Debt Service	Other Governmental	Total Governmental
Nonspendable:						
Minimum fund balance for natural resource preservation	$ 5,000	$ -	$ -	$ -	$ -	$ 5,000
Other assets	10,591	-	-	-	-	10,591
Education	1,374	-	-	-	-	1,374
Public housing and welfare	782	-	-	-	-	782
Subtotal	17,747	-	-	-	-	17,747
Spendable:						
Restricted for:						
Debt service	-	26,490	-	605,842	178,833	811,165
Special revenue	-	-	504,571	-	-	504,571
Public housing and welfare	14,727	-	-	-	-	14,727
Capital project	438,888	-	-	-	199,847	638,735
Education	30,936	-	-	-	-	30,936
Other purposes	67,148	-	-	-	-	67,148
Subtotal	551,699	26,490	504,571	605,842	378,680	2,067,282
Committed to:						
General Fund	593,177	-	-	-	-	593,177
Debt service	-	269,139	-	-	-	269,139
Special revenue	-	-	-	-	39,624	39,624
Public housing and welfare	35,019	-	-	-	-	35,019
Education	1,395	-	-	-	-	1,395
Subtotal	629,591	269,139	-	-	39,624	938,354
Assigned to:						
Education	14,512	-	-	-	-	14,512
Special revenue	-	-	-	-	74,752	74,752
Subtotal	14,512	-	-	-	74,752	89,264
Unassigned	(1,464,609)	-	-	-	-	(1,464,609)
Total fund balance (deficit)	$ (251,060)	$295,629	$504,571	$605,842	$493,056	$ 1,648,038

25. SUBSEQUENT EVENTS

Primary Government

On November 7, 2011, the Commonwealth approved Law Act No. 218. Act No. 218 establishes an amnesty program available until February 29, 2012, in which taxpayers may pay, outstanding income, estate, donations and special real property tax debts with a discount of 100% of any penalties, interest and surcharges ("the Program"). To benefit from the Program the taxpayer must pay the total amount of the outstanding debt as of the date of payment on or before February 29, 2012. This legislation extends the benefits to those taxpayers with outstanding debts subject to payments plans, payroll discounts and those who have tax returns under investigation.

On November 22, 2011, the Commonwealth approved law Act No. 231 which creates the Municipal Improvements Fund. The Municipal Improvements Fund will receive .01% of the deposits collected from the .05% municipal sales and uses tax collected by the Secretary of the Treasury. The collections

will be deposited in an account or special fund in GDB to be distributed through legislation by the Legislative Assembly for public permanent projects and improvements in the municipalities.

On September 29, 2011, the Department of Housing of the Commonwealth received approximately \$100 million from Vivienda Modernization 1, LLC for the repayment of note receivable principal and interest of \$87.8 million and 12.2 million, respectively, on a note receivable.

In December 2011, the Office for the Improvements of Public Schools fully paid a noncurrent liability amounting to \$88,625,000 from proceeds received from the Puerto Rico Sale Tax Financing Corporation *(known as" COFINA" by its Spanish Acronym).*

On November 23, 2011, COFINA issued its Sales Tax Revenue Bonds, First Subordinate Series 2011A amounting to approximately \$734.8 million. The Series 2011A bonds mature between August 1, 2023 and August 1, 2050 bearing interest rates from 5.00% to 7.00%. The proceeds from the issuance of the Series 2011A bonds will be mainly used to refund certain outstanding bonds of COFINA and provide funds to the Commonwealth to cover operating expenses. In addition, COFINA issued its Sales Tax Revenue Bonds, First Subordinate Series 2011B amounting to approximately \$45.6 million. The Series 2011B matures between August 1, 2031 and August 1, 2036 bearing fixed interest rates from 5.00% to 5.15%. The proceeds from the issuance of the Series 2011B bonds will be mainly used to refund certain outstanding bonds of COFINA.

On December 13, 2011, COFINA issued its Sales Tax Revenue Bonds, Senior Series 2011C amounting to approximately \$1,006.5 million. The Series 2011C bonds will mature between August 1, 2020 and August 1, 2046 bearing interest rates from 4.00% to 6.25%. The proceeds from the issuance of the Series 2011C bonds will be mainly used to refund certain outstanding bonds of the Puerto Rico Public Finance Corporation and cover certain payments associated with swap agreements of COFINA. In addition, COFINA issued its Sales Tax Revenue Bonds, Senior Series 2011D amounting to approximately \$91.1 million. The Series 2011D bonds mature between August 1, 2023 and August 1, 2036 bearing interest rates from 3.80% to 4.85%. The proceeds from the issuance of the Series 2011D bonds will be mainly used to refund certain outstanding bonds of the Puerto Rico Public Finance Corporation.

The Public Buildings Authority ("PBA") is currently involved in the "Schools for the 21st Century" program, which is a multi-agency effort with the objective of rehabilitating, renovating, and/or constructing approximately 100 public schools through the use of an innovative procurement approach that effectively transfers the risk of design, construction and maintenance to the private sector. Under this program, the Puerto Rico Public-Private Partnerships Authority ensures overall compliance with procurement requirements while the Puerto Rico Infrastructure Financing Authority serves as procurement and construction manager. The public schools included under the program will undergo major repairs of structural deficiencies, renovations of electrical and mechanical defects, and the creation of new community spaces, sciences labs, art centers, among other things.

PBA has issued its \$756,449,000 aggregate principal amount of Government Facilities Revenue Bonds, Series R (Qualified School Construction Bonds-Issuer Subsidy) (the "Series R Bonds"). The proceeds of the Series R Bonds will be used to finance the rehabilitation, renovation or construction of at least 100 public schools under this program. PBA expects to finance the rehabilitation, renovation or construction of the remaining public schools through a future issuance of bonds also designated as "Qualified School Construction Bonds".

Concurrently with the issuance of the Series R Bonds, on August 24, 2011 PBA issued its \$303,945,000 aggregate principal amount of Government Facilities Revenue Bonds, Series S Guaranteed by the Commonwealth. The bonds are being issued to (i) repay certain advances made to PBA by GDB under

line of credit facilities to (a) pay interest due January and July 1, 2011 on certain bonds issued under the 1995 Bond Resolution and the 1970 Bond Resolution, and (b) pay a portion of the construction costs of certain buildings and facilities leased by PBA to various departments, agencies, instrumentalities and municipalities of the Commonwealth; and (ii) pay costs of issuing the bonds. The Government Facilities Revenue Bonds, Series S, repay the lines of credit principal in the amounts of $147.8 million, $16.2 million and $122 million, and accrued interest of $16 million.

In July 2011, PBA repaid the accrued interest for the line of credit of $98,500,000 with annual rate equal to 1.50%. The accrued interest paid at July 30, 2011, was in the amount of $309,490.

On December 19, 2011, PBA issued Government Facilities Revenue Bonds, Series T (Qualified Zone Academy Bonds-Direct Payment) (the "Series T Bonds") Guaranteed by the Commonwealth of Puerto Rico amounting to $121,528,000 maturing on July 1, 2030 bearing a fixed interest rate of 5.60%. The Series T Bonds are subject to redemption prior to the maturity at the option of PBA, either in whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest to the date of the redemption, without premium, within ninety (90) days after December 22, 2014 to the extent that less than all of the available project proceeds are not expended for qualified purposes by the end of the three-year expenditure period beginning on the date of issuance. Interest on the bonds will be payable on August 1, 2012, on October 1, 2012 and quarterly thereafter on each January 1, April 1, July 1 and October 1. The proceeds will be used to pay part of the cost of renovating and rehabilitating certain public schools.

On July 11, 2011, the Commonwealth issued Public Improvement Bonds of 2011 and Public Improvement Refunding Bonds Series 2011 D and Series 2011 E amounting to approximately $602,105,000. The Public Improvement Bonds of 2011 ("2011 Bonds") consist of term bonds with a total principal of $304,000,000 maturing on July 1, 2041 and bearing interest rate of 5.75%. Interest on the 2011 Bonds will be payable semi-annually on each January 1 and July 1, commencing on January 1, 2012. The net proceeds of the 2011 Bonds will be used to carry out certain capital improvements programs authorized by the Legislature Assembly in Act No. 79 of June 1, 2011 and the refunding of bond anticipation notes issued under the Act No. 79 to finance, on an interim basis, portions of certain such capital improvements programs. In addition, the Commonwealth issued the Public Improvement Refunding Bonds Series 2011 D and Series 2011 E ("Refunding Bonds") amounting $52,190,000 and $245,915,000, respectively. The net proceeds of the Refunding Bonds were used to: (i) refund in full certain other general obligation bonds and notes of the Commonwealth, (ii) fund termination payments under certain interest rate swap agreements and a debt service deposit agreement entered into in connection with the issuance of the refunded bonds, (iii) pay capitalized interest on the Refunding Bonds, and (iv) pay certain transaction costs. The scheduled payment of principal of and interest on the Refunding Bonds, Series 2011 D with maturity dates July 1, 2019 and bearing interest at a rate of 3.875% ($5,900,000) and July 1, 2020 and bearing interest at a rate of 4.125% ($4,500,000) (the Insured Bonds), when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by Assured Guaranty Municipal Corp.

On March 7, 2012, the Commonwealth issued Public Improvement Refunding Bonds, Series 2012 A (General Obligation Bonds) (the "Series 2012 A Bonds"). The Series 2012 A Bonds consist of serial bonds with a principal amount of $639,445,000 maturing between July 1, 2020 and July 1, 2033 bearing interest rates from 4.00% to 5.75% and term bonds with a principal amount of $1,678,745,000 maturing between July 1, 2035 and July 1, 2041 and bearing interest rates from 5.00% to 5.50%. The proceeds from the issuance of the Series 2012 A Bonds will be used to provide funds to (i) repay the GDB lines of credit, the proceeds of which refinanced deposits to the Commonwealth's redemption fund for the payment of principal and interest due on January 1, 2012 and July 1, 2012 on certain general obligation bonds and notes of the Commonwealth, (ii) refund certain of the Commonwealth's outstanding general

obligation bonds and fund associated termination payments due under an investment agreement and interest rate exchange agreements, (iii) pay capitalized interest on a portion of the Series 2012 A Bonds to April 3, 2015 and (iv) pay expenses related to the issuance and sale of the Series 2012 a Bonds.

On March 7, 2012, the Commonwealth issued Public Improvement Refunding Bonds, Series 2012 B (General Obligation Bonds) (the "Series 2012 B Bonds"). The Series 2012 B Bonds consist of serial bonds with a principal amount of $365,660,000 maturing between July 1, 2013 and July 1, 2020 bearing interest rates from 2.25% to 4.40% and a term bond with a principal amount of $49,610,000 maturing on July 1, 2033 and bearing a fixed interest rate of 5.30%. The proceeds from the issuance of the Series 2012 B Bonds will be used to provide funds (i) repay a GDB line of credit, the proceeds of which refinanced deposits to the Commonwealth's redemption fund for the payment of principal and interest due from February 1, 2012 to July 1, 2012 on certain general obligation bonds and notes of the Commonwealth, (ii) refund certain of the Commonwealth's outstanding general obligation bonds. (iii) pay capitalized interest on a portion of the Series 2012 B Bonds, and (iv) pay expenses related to the issuance and sale of the Series 2012 B Bonds.

Component Units

(a) GDB

On July 1, 2011, GDB refunded $400 million of its then outstanding Senior Notes Series 2009 C and Series 2009 D.

GDB Senior Notes 2011 — On September 13, 2011, GDB issued $450 million of Senior Notes, 2011 Series C. The Senior Notes, 2011 Series C mature on October 15, 2012 bearing fixed interest rate of 1.00%. Interest on the Senior Notes, 2011 Series C will be payable on maturity. GDB used the proceeds to provide a loan to the Secretary of the Treasury of Puerto Rico for the purpose of managing intra-year cash flow needs of the Commonwealth during fiscal year 2012.

On October 5, 2011, GDB issued $295 million of Senior Notes, 2011 Series D. The Senior Notes, 2011 Series D mature on November 8, 2012 bearing fixed interest rate of 1.00%. GDB used the proceeds to provide a loan to the Secretary of the Treasury of Puerto Rico for the purpose of managing intra-year cash flow needs of the Commonwealth during fiscal year 2012.

On October 11, 2011, GDB issued $150 million of Senior Notes, 2011 Series E. The Senior Notes, 2011 Series E mature on April 11, 2012 bearing fixed interest rate of 1.85%. Interest on the Senior Notes, 2011 Series E will be payable on a monthly basis. GDB used the proceeds for general corporate purposes, including, but not limited to, increasing its investment portfolio, making loans and purchasing obligations of the Commonwealth and its public corporations, instrumentalities and municipalities.

On November 7, 2011, GDB issued $400 million of Senior Notes, 2011 Series F. The Senior Notes, 2011 Series F mature on January 8, 2013 bearing fixed interest rate of 1.75%. Interest on the Senior Notes, 2011 Series F will be payable on maturity. GDB used the proceeds for general corporate purposes, including, but not limited to, increasing its investment portfolio, making loans and purchasing obligations of the Commonwealth and its public corporations, instrumentalities and municipalities.

On December 28, 2011, GDB issued $1,399 million of Senior Notes, 2011 Series H. The Senior Notes, 2011 Series H consist of term notes maturing on various dates from August 1, 2015 to August 1, 2026 bearing fixed interest rates ranging from 3.80% to 5.20%. The Senior Notes, 2011 Series H are subject to Redemption at the option of GDB, either in whole or in part, at a price equal

to the principal amount to be redeemed plus accrued interest to the date of redemption without premium on February 1, 2013 and on any day thereafter, subject to at least 30 days prior notice. Interest on the Senior Notes, 2011 Series H will be payable monthly on the first day of each month, commencing on February 1, 2012. GDB used the proceeds for general corporate purposes, including, but not limited to, increasing its investment portfolio, making loans and purchasing obligations of the Commonwealth and its public corporations, instrumentalities and municipalities, redeeming and/or purchasing all or portion of certain notes previously issued and to pay for the costs of issuance. In particular, GDB expects to use a portion of the proceeds of the Senior Notes, 2011 Series H to redeem some of the Senior Notes, 2009 Series C and D, Senior Notes, 2010 Series A and Senior Notes, 2011 Series F.

On January 12, 2012, GDB issued $398 million of Senior Notes, 2011 Series I. The Senior Notes, 2011 Series I consist of term notes maturing on various dates from August 1, 2014 to August 1, 2018 bearing fixed interest rates. Interest on the Series Notes, 2011 Series I will be payable monthly on the first day of each month, commencing on February 1, 2012. GDB used the proceeds for general corporate purposes, including, but not limited to, increasing its investment portfolio, making loans and purchasing obligations of the Commonwealth and its public corporations, instrumentalities and municipalities, redeeming and/or purchasing all or portion of certain notes previously issued and to pay for the costs of issuance. In particular, GDB expects to use a portion of the proceeds of the Senior Notes, 2011 Series I to redeem some of the Senior Notes, 2009 Series C and D, Senior Notes, 2010 Series A and Senior Notes, 2011 Series F.

On February 8, 2012, GDB issued $1,000 million of Senior Notes, 2012 Series A. The Senior Notes, 2012 Series A consist of term notes maturing on various dates from February 1, 2015 to February 1, 2019 bearing fixed interest rates ranging from 3.448% to 4.375%. The Senior Notes, 2012 Series A are subject to redemption at the option of GDB, either in whole or in part, at a price equal to the greater of the principal amount to be redeemed or the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the 2012 Series A Notes to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the 2012 Series A Notes are to be redeemed, discounted to the date on which the 2012 Series A Notes are to be redeemed on a semiannual basis, assuming a 360-day year consisting of twelve 30-days months, at the Treasury Rate plus 50 basis points; plus, in each case, accrued interest on the 2012 Series A Notes to be redeemed to the redemption date. Interest on the 2012 Series A Notes will be payable semiannually on the first day of each February and August, commencing on August 1, 2012. GDB used the proceeds for general corporate purposes, including, but not limited to, increasing its investment portfolio, making loans to, and purchasing obligations of the Commonwealth and its public corporations, instrumentalities and municipalities and redeeming certain notes previously issued and to pay for the costs of issuance. In particular, GDB expects to use a portion of the proceeds of the 2012 Series A Notes to redeem some of the Senior Notes, 2009 Series C and D and Senior Notes, 2010 Series A and C.

Housing Finance Authority

Special Obligation Notes, 2011 Series A — On October 4, 2011, the Housing Finance Authority issued $18 million of its Special Obligation Notes, 2011 Series A (the 2011 “Notes”) at an aggregate discounted price of $9,180,000. The 2011 Notes will be collateralized by certain second mortgages originated under the Home Purchase Stimulus Program and will be repaid from collections of principal and interest of the underlying collateral. The second mortgage loans will be guaranteed by the Housing Finance Authority’s Act No. 87 insurance.

Restructuring of Mortgage Trust III, Collateralized Mortgage Obligations, Series A — In July 2011, the Housing Finance Authority restructured approximately $425 million face amount of Mortgage Trust III bonds and obtained $60 million of cash from related collateral. The restructuring took place as follows: 1) tender offer amounting to approximately $144 million (including expenses related to the transaction) to acquire and cancel bonds with a carrying amount of approximately $112 million, and 2) purchase AAA securities amounting to approximately $160 million to establish an escrow for the payment through maturity of bonds with a carrying amount of approximately $129 million.

Transfer of New Secure Housing Program — On January 30, 2012, the Housing Finance Authority signed an interagency agreement with DOH to initiate the transition process and facilitate the undertaking of the responsibilities of DOH's as New Secure Housing (NSHP) Program sub-grantee. As part of the transition process the Housing Finance Authority met with DOH's designated officials and reviewed Program's objectives, legal basis, grant terms, program functioning, challenges, results, pending issues and recommendations. Also a summary of the status of each implementation phase of all offsite project sites was covered. As part of the agreement, the remaining 209 vacant housing units of the Program were transferred to DOH for disposition under the DOH's regulatory parameters. The Housing Finance Authority also assumed responsibility for payment of principal and interest of the related debt of the Program. As of February 29, 2012, the line of credit of the Program had an outstanding balance of $53.1 million. Any resulting liability or recapture that could be assessed by the federal government regarding any noncompliance event of the program will be assumed by the DOH.

Public Finance Corporation — On August 18, 2011, the Public Finance Corporation ("PFC") issued its 2011 Series A Bonds (Commonwealth Appropriation Bonds) (the "2011 Series A Bonds"). The 2011 Series A Bonds consist of a term bond with a principal amount of $242,430,000 maturing on August 1, 2028 and bearing a fixed interest rate of 6.50%. The 2011 Series A Bonds are subject to redemption at the option of PFC, either in whole or in part, at par amount to be redeemed, plus accrued interest at the redemption date, without premium on August 1, 2016 and on any date thereafter, subject to at least 30 days notice. In addition, the 2011 Series A Bonds are subject to mandatory redemption, in part, in the principal amount equal to the amortization requirement, as defined, plus accrued interest, without premium from August 1, 2027 to August 1, 2028. Interest on the 2011 Series A Bonds will be payable semiannually on the first day of each August and February, commencing on February 1, 2012. The 2011 Series A Bonds were issued to repurchase a portion of its 2004 Series A Bonds, paying interest on the 2011 Series A Bonds and paying issuance costs.

On December 15, 2011, PFC issued its 2011 Series B Bonds (Commonwealth Appropriation Bonds) (the "2011 Series B Bonds"). The 2011 Series B Bonds consists of serial bonds with a principal amount of $74,985,000 maturing on various dates from August 1, 2024 to August 1, 2026 and bearing a fixed interest rate of 6.00% and a term bond with a principal amount of $362,660,000 maturing on August 1, 2031 and bearing a fixed interest rate of 5.50%. The 2011 Series B Bonds are subject to redemption at the option of PFC, either in whole or in part, at a redemption price equal to the par amount to be redeemed, plus accrued interest to the redemption date, without premium on August 1, 2021 and on any date thereafter, subject to at least 30 days notice. In addition, the 2011 Series B Bonds are subject to mandatory redemption, in part, in the principal amount equal to the amortization requirement, as defined, from August 1, 2027 to August 1, 2031. Interest on the 2011 Series B Bonds will be payable semiannually on the first day of each August and February, commencing on August 1, 2012. The 2011 Series Bonds were issued for the purpose of (i) current refunding, and redeeming on the mandatory tender date, all 2004 Series A Bonds that are not expected to be defeased with the proceeds of the COFINA Senior Series 2011 Bonds, plus accrued interest to the redemption date, (ii) paying a portion of the interest on the 2011 Series A Bonds through February 1, 2012 and a portion of the interest on the 2011 Series B Bonds through

February 1, 2015, representing no more than three years of capitalized interest on the 2011 Series B Bonds, and (iii) paying the cost of issuing the 2011 Series B Bonds.

Puerto Rico Development Fund

Closing of New Market Tax Credits Transaction — On February 15, 2012, the Citibank N.A. and GDB, through the Puerto Rico Development Fund (PRCDF), one of its blended component units, funded and closed the New Market Tax Credit (NMTC) transaction commenced on October 14, 2011. With the proceeds of the transaction PRCDF established a $45 million Revolving Loan Fund. A portion of the proceeds were used to acquire from the Housing Finance Authority $30.2 million worth of construction loans of for-sale affordable housing projects in low income communities in Puerto Rico. An additional $12.5 million was loaned and distributed to the respective developers' construction disbursement accounts. Professional and legal fees and transaction expenses in the aggregate amount of $1.9 million, including the Housing Finance Authority's fiscal agency fees of $0.7 million, were paid by PRCDF from the placement and sponsor fees received in the transaction.

On April 3, 2012, GDB, through PRCDF, entered into certain agreements with various financial institutions whereby GDB will guarantee up to 30% of the principal of and 180 days of interest on commercial loans issued by the financial institutions up to a maximum principal balance of $800 million. GDB's funding commitment shall never exceed $200 million.

(b) PRASA

Issuance of Debt — On September 14, 2011, PRASA issued approximately $70.2 million of Series HH of USDA Rural Development Program Bonds, at a maximum interest of 4.25% of interest, payable semiannually and maturing in semiannual installments through July 1, 2051. The funds raised by this issuance were used to partially repay the outstanding balance of the USDA Rural Development Program lines of credit for construction projects from GDB. The payment of principal and interest on these bonds is guaranteed by the Commonwealth.

On February 15, 2012, PRASA issued approximately $1,800 million of Revenue Bonds, Series 2012 A (Senior Lien) (the "Series 2012 A Bonds"), The Series 2012 A Bonds consist of serial bonds with a principal amount of $418,455,000 maturing on various dates from July 1, 2015 to July 1, 2030 and bearing fixed interest rates ranging from 4.00% to 5.50% and term bonds with a principal amount of $1,381,995,000 maturing between July 1, 2033 and July 1, 2047 and bearing interest rates from 5.00% to 6.00%. The Series 2012 A Bonds maturing after July 1, 2022 are subject to redemption at the option of PRASA, starting on July 1, 2022. The Series 2012 A Bonds were issued to (i) repay certain lines of credit provided by GDB, (ii) finance a portion of the Five–Year Capital Improvement Program, (iii) make a deposit to the newly created Budgetary Reserve Fund, (iv) pay capitalized interest on the Series 2012 A Bonds through July 1, 2013 and (v) pay the costs of issuance of the Series 2012 A Bonds.

Also, on February 15, 2012, PRASA issued approximately $295.2 million of Revenue Bonds, Series 2012B (Senior Lien) (the "Series 2012 B Bonds"). The Series 2012 B Bonds consist of serial bonds with a principal amount of $188,130,000 maturing on various dates from July 1, 2014 to July 1, 2023 and bearing fixed interest rates ranging from 3.35% to 5.00% and a term bond with a principal amount of $107,115,000 maturing on July 1, 2027 and bearing interest at 5.35%. The 2012 Series B Bonds maturing after July 1, 2015 are subject to redemption at the option of PRASA, starting on July 1, 2015. The Series 2012 B Bonds were issued to (i) provide funds to repay a bond anticipation note issued by PRASA in the aggregate principal amount of $241 million, (ii) provide funds to repay

certain lines of credit provided by GDB, (iii) pay capitalized interest on the Series 2012 B Bonds through July 1, 2013, and (iv) pay the costs of issuance of the Series 2012 B Bonds.

On January 17, 2012, PRASA issued approximately $241 million of Bond Anticipation Notes, Series 2012A (Senior Lien). The proceeds were used to repay a term loan with various commercial banks that matured on January 16, 2012 and pay the costs of issuance of the 2012A Bond Anticipation Notes.

Thames Dick Corporation — Master Agreement Termination — On January 31, 1996, PRASA and Thames Dick Superaqueduct Partners, Inc. (TDSP) executed an agreement entitled Master Agreement for the North Coast Superaqueduct Project to plan, design, construct, operate and maintain North Coast Superaqueduct Project (NCSP). PRASA and TDSP have agreed to cancel the Master Agreement and transfer the responsibility to PRASA for the operation and administration of the NCSP as of July 19, 2011. The amount of $2.1 million was deposited in an Escrow account to guarantee PRASA's claims that may arise after the cut-off date. TDSP is not responsible for retained liabilities exceeding the amount in escrow. Retained liabilities are claims by or against PRASA arising out of 1996 Master Agreement through the cut-off date. PRASA requested certain remedial maintenance services to be paid by TDSP and completed by PRASA after cut-off date for the amount of $1.8 million. This remedial maintenance services included (a) reservoir cleaning and (b) the repairing of three main pumps. TDSP transferred PRASA the control of NCSP and ownership of vehicles, laboratory equipment, office equipment, and others.

Assets Transfer — On August 16, 2011, PRASA entered into an Asset Purchase Agreement (the Agreement) with the Puerto Rico Industrial, Tourism, Educational, Medical and Environmental Central Facilities Financing Authority (AFICA), a public corporation of the Commonwealth of Puerto Rico to purchase certain assets that were being used to develop the Southern Gas Pipeline Project for the total purchase price of approximately $23.5 million and assumed the rights and obligations of PREPA under a Subordinated Loan Agreement between AFICA and PREPA and a Subordinated Note and Loan Agreement of approximately $31 million.

Extension of Maturity Date — Term Loan Agreement — On September 8, 2006, PRASA entered into a $250 million term loan agreement with Banco Popular de Puerto Rico, as Administrative Agent, and a syndicate of banks. On August 17, 2011, the maturity date of this term loan was extended from September 1, 2011 to January 16, 2012. PRASA will be required to make quarterly principal payments of $736,000 on September 1, 2011 and December 1, 2011.

(c) PREPA

Long – Term Debt — During the month of July 2011, PREPA entered into a revolving line of credit with Citibank amounting to $260 million to finance fuel purchases. This credit facility has an automatic reduction provision that will lower the balance to $210 million on March 30, 2012. This line of credit matures on July 13, 2012, and bears interest at a variable rate per annum equal to the sum of 90-day LIBOR Floating Pool Rate plus the applicable Spread of 1.70%.

Natural Disaster — In September 2011, Hurricane Irene struck Puerto Rico causing significant damages across the island and to PREPA infrastructure. As a result, distribution, transmission and production components of the utility plant were seriously damaged. At this time the financial effect of the hurricane on PREPA's operations could not be determined; however, certain types of assets were insured and PREPA expects to collect all restoration costs from their insurance agencies. In addition, PREPA will claim to the Federal Emergency Management Agency (FEMA) uninsured damages caused by the hurricane.

Nonrevolving Line of Credit — During the month of October 2011, PREPA entered into a nonrevolving line of credit with the Government Development Bank (GDB) amounting to $244 million. This line of credit matures on June 30, 2012 and bears interest per annum equal to prime rate plus 150 basis points, as determined from time to time in good faith by GDB or upon written notice to PREPA, at a variable rate of interest per annum, which interest rate may be revised periodically, equal to the GDB cost of funding for variable rate loan transactions or the cost of any other obligations or source of funds used to fund the loan.

Rate Stabilization Account — During the month of November 2011, PREPA's Governing Board approved the creation of a Rate Stabilization Account ("RSA") which is going to be managed by PREPA and GDB. PREPA will make deposits to the RSA on a monthly basis from any moneys that are available after the payment of current expenses, principal and interest due, the funding of the required deposits to the Reserve Maintenance Fund, the Subordinate Obligations Fund, the Self Insurance Fund and the Capital Improvement Fund created by the Trust Agreement. Available amounts in the RSA can be used by the Authority with the approval of GDB to offset the application of a credit to consumers.

Act No. 233 — On December 11, 2011, the Commonwealth approved Act No. 233 (the "Act") amending Act No. 83 of May 2, 1941, also known as the Puerto Rico Electric and Power Authority Act. The Act modified the calculation of the Contribution in Lieu of Taxes (CILT) made by PREPA. Energy used in municipal facilities for which the municipality receives rent or right of admission revenues will not be taken into consideration in the CILT calculation. The primary purpose of Act 233 is to give relief in energy costs to customers.

Credit Ratings — On December 16, 2011, during the course of routine surveillance, Fitch Ratings affirmed the BBB+ rating to PREPA's approximately $7.8 billion in outstanding power revenue bonds with a rating outlook and stable.

On March 28, 2012, Fitch Ratings assigned a BBB+ rating to PREPA's $461.5 million power revenue bonds, series 2012 A and $19.7 million power revenue refunding bonds, series 2012 B, which are expected to price via negotiation during the week of April 9, 2012. Bond proceeds will fund a portion of planned capital expenditures through fiscal year 2013, repay short-term borrowings payable to GDB, pay capitalized interest through January 1, 2015 (2012 A bonds), and economically refund certain series of the outstanding power revenue bonds. Fitch also reaffirmed the BBB+ rating on the outstanding parity power revenue bonds. In addition, the rating outlook was revised to negative from stable.

On March 27, 2012, Moody's Investors Service assigned a Baa1 rating to PREPA's power revenue bonds, series 2012 A, and power revenue refunding bonds, series 2012 B. Moody's has also downgraded the approximately $7.8 billion of outstanding power revenue bonds to Baa1 from A3, with a stable outlook.

On March 2, 2012, GDB approved a new revolving line of credit for the amount of $50 million to finance fuel purchases. This line of credit matures on June 30, 2012, and bears interest at a variable rate per annum equal to the sum of Prime Rate plus the applicable Spread of 1.50% with a minimum rate of 6%.

PREPA expects to issue $650 million Revenue Bonds, Series 2012A, (the "Series 2012 A Bonds"), and Power Revenue Refunding Bonds, Series 2012B (the "Series 2012 B Bonds") on May 1, 2012. The Series 2012 A Bonds consist of serial bonds with a principal amount of $114,510,000 maturing on July 1, 2029 and July 1, 2042 and bearing fixed interest rates of 4.80% and 5.05%, respectively,

and term bonds with a principal amount of $515,600,000 maturing on July 1, 2029 and July 1, 2042 and bearing interest rates of 5.00%. The Series 2012 A Bonds maturing after July 1, 2022 are subject to redemption at the option of PREPA, starting on July 1, 2022. The Series 2012 A Bonds were issued to (i) finance a portion of the cost of various projects under its capital improvement program, (ii) repay certain advances made to PREPA by GDB under a line of credit facility, (iii) fund a deposit to the Reserve Account in the PREPA Revenue Bonds Interest and Sinking Fund, (iv) pay capitalized interest on the Series 2012A Bonds through January 1, 2015, and (v) pay the costs of issuance of the Series 2012 A Bonds. The Series 2012 B Bonds consist of serial bonds with a principal amount of $19,890,000 maturing on July 1, 2016 and bearing fixed interest rates of 2.50% and 5.00%. The Series 2012 B Bonds were issued to (i) provide funds, together with other available moneys, to refund the Power Revenue Bonds Series II of $21,345,000, and (ii) to pay the costs of issuance of the Series 2012B Bonds.

PRHIA

Effective October 1, 2011, PRHIA decided to expand the direct contracting project to cover, in addition to Vieques and Guaynabo, the West, the Metro North, the North, the San Juan, the Northeast and the Virtual Regions. These regions, previously covered by MCS Health Management Options, Inc. under coverage for premium arrangement will be managed by Triple-S Salud, Inc. as TPA starting on November 1, 2011. Under this arrangement, Triple-S Salud, Inc. will receive a PMPM for performing administrative services. In addition, PRHIA will implement certain cost containment strategies to control costs. Among these strategies are establishing a co-payment that will apply for the unjustified use of emergency rooms, detection and control of prescription drug overuse, implementation of disease management program for respiratory conditions, modification in provider fees and better coordination of benefits for the population having other medical insurance.

On October 18, 2011, the Legislature approved Law Number 205. This Law authorizes PRHIA to open a revolving line of credit either with GDB or with a commercial bank for the sole purpose of paying health insurance premiums, health service providers and financing costs related to the line of credit. The amount of the line of credit will be limited to and guaranteed by the amount of federal funds to be received by Puerto Rico from the Federal Government's Medicaid Program as certified by PRHIA's Board of Directors and by the Puerto Rico Medicaid Program. PRHIA will be obliged to use any federal funds received to pay the line of credit. The Government of Puerto Rico will guarantee and will make the necessary appropriations to cover any balance of the line of credit in excess of federal funds received.

On March 7, 2012, PRHIA entered into a $250 million credit facility agreement with various financial institutions. Advances made under the credit facility will be used to fund monthly expenses which are eligible to be reimbursed through a confirmed and certified Available Medicaid Grant as provided in the Health Insurance Administration Act and to pay legal and closing expenses and other costs and expenses related to the transactions contemplated in the credit facility agreement. Advances made under the credit facility bear interest at a rate per annum equal to the sum of (i) the higher of, LIBOR as in effect from time to time or an interest rate equal to fifty basis points (0.50%), plus (ii) the Applicable Margin, as defined.

(d) PRHTA

On June 27, 2011, the PRHTA entered into a Toll Concession Agreement (the "Agreement") with a private company named "Autopistas Metropolitanas de Puerto Rico, LLC". The purpose of this Agreement is to finance, operate and maintain the PR-22 and PR-5 highways for a 40 years term. In this transaction, the PRHTA will receive a concession fee of $1.08 billion and will stop receiving the

tolls revenues for those two highways. This transaction will benefit the PRHTA fiscal capacity in the following matters: 1) PRHTA will obtain a significant amount of cash, that will be used to defease the corresponding bonds payable, 2) a minimum of capital investment of approximately $75 million for the next 3 years need to be performed by the third party, so it will not have maintenance costs for the next 40 years, 3) increase the quality of highways in terms of security to Global Standards, and 4) savings in interest expenses of approximately $100 million annually due to the decrease in outstanding bonds by $1 billion. This Agreement was effective when the third party paid the Concession Fee on September 22, 2011.

During the execution of this transaction, PRHTA entered into a new agreement with GDB for the amount of $400 million nonrevolving line of credit. This line of credit matures on March 19, 2012 and bear interest daily at variable rate of interest per annum equal to Prime Rate plus 150 basis points. The interest rate shall not be less than six (6) percent.

On August 25, 2011, PRHTA entered into a new agreement with GDB for the amount of $77 million to increase the $45 million nonrevolving line of credit agreed on August 27, 2010, with the same loan terms and an extension in the maturity date until January 31, 2013.

On October 18 2011, PRHTA entered into a new agreement with GDB for the amount of $71 million for the purpose of paying certain costs incurred or to be incurred in the acquisition, construction, equipping, installation and development of certain capital improvements, and paying certain costs associated with the automatization of the PRHTA's toll collection system. This line of credit matures on August 31, 2013 and bears interest daily at variable rate of interest per annum equal to Prime Rate plus 150 basis points. The interest rate shall not be less than six (6) percent.

On October 20, 2011, PRHTA entered into a new agreement with GDB to modify the purpose of the $24 million nonrevolving line of credit agreed on April 19, 2011. The new purpose of the line of credit will be for paying cost incurred or to be incurred for operational purposes of the Maritime Transportation Authority.

On November 22, 2011, PRHTA entered into a new agreement with GDB for the amount of $49.3 million to increase the $45 million nonrevolving line of credit agreed on October 18, 2011, with the same loan terms.

On February 22, 2012, GDB approved an increase of $126 million to an existing nonrevolving line of credit agreement entered into on September 21, 2011, with the same terms. The increment will be used to pay operational costs of $109 million related to the second semester of fiscal year 2012, and to pay accrued interest of $17.4 million.

(e) PAA

Pursuant to the provisions of the legislative Joint Resolution No. 54 of June 10, 2011, the Commonwealth approved a budgetary appropriation for the fiscal year 2011-2012, amounting to $17,315,000, for the payment of principal and interest of the Series A Bond and the payment of interest only of the Series B and C Bonds of the PAA under the bond purchase agreements with the GDB. Such funds were made available for transfer through the GDB during August 2011.

On December 12, 2011, the Puerto Rico Governor signed the Act No. 240 of 2011, known as the *Law of the Ponce Ports Authority* (the "Act"), which establishes general guidance for the further development of the Port of the Americas and its integration to certain development strategies proposed by the Municipality of Ponce. The Act created the Ponce Ports Authority ("PPA") for continuing the development of the port and for managing the Port's future operations. The Board of

Directors of PPA shall consist of members from PAA and representatives from the Municipality of Ponce. All of the rights and duties of the Port of the Americas Authority shall be transferred to PPA.

Pursuant to the provisions of the Act, the PAA shall continue to handle the obligations, liabilities and commitments incurred prior to the enactment of the Act. The impact, if any, that the implementation of the Act may have on PAA's financial condition, cannot be determined as of the date of issuing the financial statements.

(f) PRCCDA

On July 7, 2011, as part of the Bahia Urbana Project, PRCCDA received a transfer of land from Puerto Rico Department of Transportation and Public Works, a department of the Commonwealth. As of the date the basic financial statements were available to be issued, the transferor's carrying value of the property was not available.

(g) PRCHE

On July 1, 2011, PRCHE consummated a merger with the Puerto Rico Council on General Education covered by the provisions of the Reorganization Plan No.1, of July 26, 2010, under the Act No. 182 of December 17, 2009 known as "Act of Reorganization and Modernization of the Executive Branch of the Government of Puerto Rico of 2009". A new organization was created; Puerto Rico Council on Education, and all the assets and liabilities of PRCHE were transferred and assumed by the new Council during the merge.

(h) AFICA

On August 16, 2011, PRASA executed a purchase agreement to acquire certain assets from AFICA for approximately $20.9 million and assume PREPA's subordinated loan with AFICA with an outstanding balance of approximately $30 million plus approximately $1 million to be used for related costs. The subordinated loan bears interest at 150 basis points over U.S. Prime Rate, with a floor of 6%, due on August 16, 2012.

AFICA also entered into a bill of sale with PREPA of approximately $12.5 million to cover the remaining balance owed to the Bank attributable to this transaction. Among the assets reacquired by PREPA are: (1) 75% of a project's design of approximately $3.1 million, (2) right-of-way of approximately $6.2 million, (3) inventory used by PREPA amounting to approximately $2.6 million, and (4) financing costs associated with this transaction of approximately $489,000. The subordinated loan bears interest at 150 basis points over U.S. Prime Rate, with a floor of 6%, due on September 29, 2011. Subsequently, AFICA made a principal payment of approximately $20.9 million to the Bank.

(i) PRPA

On November 28, 2011, AMR Corp. ("AMR"), the parent company of American Airlines, filed for bankruptcy under Chapter 11 of the US Bankruptcy Law. PRPA derived 21% of its rental revenues and 22% of its landing and other fees from AMR during fiscal year 2011. PRPA's collection of revenues in the next fiscal year may be affected if AMR's bankruptcy proceedings cause delays or suspension of payments, or if AMR's operations are modified as part of the underlying corporate reorganization.

On December 28, 2011, PRPA entered into a refinancing transaction in the amount of $678,451,920, by issuing bonds through the PRIFA as conduit. The proceeds will be used to finance and refinance some or all of the following: (i) the repayment of certain commercial loans, (ii) the payment of a

swap termination fee related to one of the loans, (iii) the repayment to GDB of certain loans and lines of credit; (iv) the payment of certain amounts owed by PRPA to PREPA and (v) the payment of cost of issuance.

In December 2011, PRPA entered into certain expropriation proceedings through the Puerto Rico First Instance Court ("the Court"), to acquire certain properties and concessions owned by third parties within the Luis Muñoz Marín International Airport complex. In connection with such proceedings, on December 27, 2011, PRPA obtained a $30 million nonrevolving credit facility with the Government Development Bank, out of which $25.4 million were deposited with the Court to start the expropriation process. The advance matures on December 31, 2012 and should be repaid out from the proceeds of the Puerto Rico Public Partnership Authority's concession, or the underlying rental income to become available immediately after transfer of the ownership to PRPA.

(j) PRIFA

In October 2011, PRIFA transferred completed construction projects amounting to $28.5 million to the Department of Transportation and Public Works.

In December 2011, PRIFA issued $20,721,636 Special Revenue Bonds pursuant to an Interagency Agreement dated September 23, 2011 between PRIFA, Commonwealth of Puerto Rico Environmental Quality Board, GDB, and Commonwealth of Puerto Rico Office of Management and Budget for the purpose of making a deposit in the Revolving Fund to cover the required Commonwealth's matching contribution pursuant to certain Capitalization Grants received by the Revolving Funds from the Federal Government, and pay the cost of issuance of the Bonds.

These Bonds are limited obligations of PRIFA payable solely from and secured by funds held by the Revolving Fund in its Repayment Account, consisting of earnings from the repayments funds during the past years which, pursuant to the Enabling Act and Title VI of the Clean Water Act, can be used as collateral for the Bonds.

On December 28, 2011, PRIFA issued $669,215,000 Revenue Bonds (Ports Authority Project), Series 2011. The Revenue Bond, Series 2011 A consists of a term bond with a principal amount of $340 million maturing on June 15, 2013 and bearing a fixed interest rate of 2.99%. The Revenue Bond, Series 2011 A is subject to an extraordinary redemption prior to maturity date at the option of the Ports Authority, upon direction to PRIFA and the Trustee, in whole or in part, at a price equal to: (a) the principal amount to be redeemed plus accrued and unpaid interest to the redemption date, without premium, for bonds issued at par, (b) original offering price plus original issue discount accrued to the redemption date, plus accrued and unpaid interest to the redemption date, without premium, for bonds issued at less than stated principal amount and (c) original offering price less original issue premium amortized to the redemption date, plus accrued and unpaid interest to the redemption date, without redemption premium, for bonds issued at more than stated principal amount, on December 15, 2014 and on any day thereafter, subject to at least 30 days notice. Interest will be payable semiannually on each June 15 and December 15, commencing on June 15, 2012. PRIFA will use the proceeds to make a loan to Ports Authority to finance and refinance some or all of the following: (i) the repayment of certain commercial loans, (ii) the payment of a swap termination fee related to one of the loans, (iii) the repayment to GDB of certain loans and lines of credit; (iv) the payment of certain amounts owed by Ports Authority to PREPA and with respect to certain capital expenditures; and (v) the payment of cost of issuance.

The Revenue Bonds, Series 2011 B consist of term bonds with a principal amount of $192,830,000, maturing on various dates from December 15, 2014 to December 15, 2026 and bearing fixed interest

rates ranging from 3.00% to 6.00%. The Revenue Bonds, Series 2011 B are subject to redemption prior to maturity at the option of the Ports Authority, upon direction to PRIFA and the Trustee, in whole or in part, at a price equal to the principal amount to be redeemed plus accrued and unpaid interest to the redemption date, without premium on December 15, 2021 and on any day thereafter, subject to at least 30 days notice. Interest will be payable semiannually on each June 15 and December 15, commencing on June 15, 2012. PRIFA will use the proceeds to make a loan to Ports Authority to finance and refinance some or all of the following: (i) the repayment of certain commercial loans, (ii) the payment of a swap termination fee related to one of the loans, (iii) the repayment to GDB of certain loans and lines of credit; (iv) the payment of certain amounts owed by Ports Authority to PREPA and with respect to certain capital expenditures; and (v) the payment of cost of issuance.

The Revenue Bonds, Series 2011 C consist of term bonds with a principal amount of $136,385,000, maturing on December 15, 2026 and bearing fixed interest rates ranging from 2.75.% to 3.00%. The Revenue Bonds, Series 2011 C may be converted to another term rate period, consisting of any multiple of six months or to fixed rate mode at the option of Ports Authority. The Revenue Bonds, Series 2011 C are subject to redemption from sinking fund installments at a price equal to the principal amount to be redeemed plus accrued interest to the redemption date, without premium, commencing on December 15, 2014 until December 15, 2026. Interest will be payable semiannually on each June 15 and December 15, commencing on June 15, 2012. PRIFA will use the proceeds to make a loan to Ports Authority to finance and refinance some or all of the following: (i) the repayment of certain commercial loans, (ii) the payment of a swap termination fee related to one of the loans, (iii) the repayment to GDB of certain loans and lines of credit; (iv) the payment of certain amounts owed by Ports Authority to PREPA and with respect to certain capital expenditures; and (v) the payment of cost of issuance.

In January 2012, PRIFA entered into an agreement with the Municipality of San Juan (“the Municipality”) for a sale of a parcel of land owned by PRIFA for $5 million. Pursuant to provisions set forth by the agreement, the Municipality will settle a legal claim against PRIFA in the amount of approximately $3.7 million and will pay the remaining $1.7 million in three equal installments, which are due at the date of closing, in July 2013, and July 2014. The carrying value of the asset amounted to approximately $5 million, after an impairment loss of approximately $2.4 million recognized during year ended June 30, 2011.

On February 24, 2012, PRIFA entered into an Assistance Agreement with the Puerto Rico Department of Justice (“PRDOJ”) and GDB for the purpose of the acquisition, refurbishment and maintenance of a real estate (“Property”), in which the main offices of the PRDOJ will be relocated. In connection with the Assistance Agreement, GDB provided a $35 million credit facility to PRIFA to undertake the acquisition and administration of the Property and handle the initial phase of the rehabilitation and refurbishment of the Property. On March 8, 2012, PRIFA acquired the Property for $27 million.

The credit facility is payable solely from, and secured by the assignment of, the PRDOJ lease agreement and any other existing and future lease agreement. Furthermore, the credit facility is also secured by mortgage lien on the Property.

(k) PPPA

The financial close of the 40-year administrative concession for the operation, management, maintenance, rehabilitation, tolling and expansion of Toll Roads PR-22 and PR-5 (the “Toll Roads Project”) was successfully completed on September 22, 2011.

On October 13, 2011, PPPA received a reimbursement of $15.8 million corresponding to all the costs incurred during the procurement process of the Toll Roads Project, including a professional fee charged by PPPA.

(l) PRTC

On August 26, 2011, Hotel Development Corporation's board of directors confirmed its commitment to make an additional $31,100,426 cumulative Class A Preferred Equity Investment in Coco Beach in connection with the development, construction and equipping of the JW Marriott Hotel and Stellaris Casino at Coco Beach.

(m) REA

The Government of Puerto Rico's Executive Branch Reorganization and Modernization Act of 2009 include the Department of Labor and Human Resources (the Department) Reorganizational Plan Number 9 of 2010. This Plan repeals Act No. 115 and consolidates and transfers REA's operations, personnel, assets, functions and powers to the Department. This Plan is pending approval of the Legislature.

(n) SIFC

In July 2011, the SIFC purchased a building for approximately $10,100,000.

(o) UPR

In August 2011, the $5.0 million line of credit with GDB was amended to increment its authorized balance to $75 million.

In October 2011, UPR amended a $100 million credit facility with GDB to increment its authorized balance to $125 million, to extend the revolving status of the line of credit from June 30, 2011 until October 1, 2012 and to convert the line of credit into a ten year term loan, with monthly equal principal payments plus interest starting on October 1, 2013. The maturity date of the line of credit was extended to October 1, 2022.

Pension Trust Funds

ERS - On July 6, 2011, the Commonwealth enacted Act No. 116 to establish an increase in the employer's contributions percentage and to improve the collection of employer contribution receivables. As previously discussed, this Act provides for increases in employer contributions from 9.275% to 10.275% of employee compensation for the 2011-2012 fiscal year, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

In addition, this Act, provides for the collection of late employer contributions directly from the CRIM when a municipality fails to send their contributions within 30 days from the due date or from Hacienda in the case of agencies, when they fail to send their contributions as per the agreement date.

As the liquidity of the ERS and JRS assets has been impaired by the growth of its loan portfolio, on August 8, 2011, the ERS and JRS Boards of Trustees issued Resolution No. 8054, limiting the personal and cultural loan maximum amounts to $5,000. Such limitations on loan amounts are expected to improve the liquidity of the System's assets. In addition, Resolution No. 8054 provides for certain limitations on the renewal of personal and cultural loans.

Furthermore, on September 18, 2011, the Commonwealth enacted Act No. 196, which allows ERS and JRS to pledge contributions to guarantee personal loans issued by a financial institution. Act No. 196 also allows ERS and JRS to sell personal, cultural and mortgage loans.

* * * * * *

REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF FUNDING PROGRESS — RETIREMENT SYSTEMS
JUNE 30, 2011

The Schedule of Funding Progress presents the following information for the current year and each of the two preceding years for each of the Commonwealth's Retirement Systems. All actuarially determined information has been calculated in accordance with actuarial assumptions and methods reflected in the actuarial valuations as of the indicated actuarial valuation date.

Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2011	$1,723,811	$25,457,354	$23,733,543	6.8 %	$3,366,402	647.3 %
June 30, 2010	1,664,991	19,501,761	17,836,770	8.5	3,818,332	467.1
June 30, 2009	1,842,143	18,943,586	17,101,443	9.7	4,292,552	398.4

The Commonwealth of Puerto Rico Judiciary Retirement System (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2011	$63,975	$382,776	$318,801	16.7 %	$31,811	1002.2 %
June 30, 2010	55,410	338,195	282,785	16.4	32,061	882.0
June 30, 2009	50,566	323,928	273,362	15.6	30,587	893.7

Puerto Rico System of Annuities and Pensions for Teachers (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Junio 30, 2011	$2,385,863	$11,448,609	$9,062,746	20.8 %	$1,320,400	686.4 %
Junio 30, 2010	2,221,977	9,279,776	7,057,799	23.9	1,370,344	515.0
June 30, 2009	2,157,593	8,721,515	6,563,922	24.7	1,418,304	462.8

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF FUNDING PROGRESS — POSTEMPLOYMENT HEALTHCARE BENEFITS
JUNE 30, 2011

The Schedule of Funding Progress presents GASB 45 results of OPEB valuations as of fiscal years ended June 30, 2011, 2010 and 2009 for each of the Commonwealth's Retirement Systems. The schedule provides a three year information trend about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2011	$ -	$1,758,389	$1,758,389	- %	$3,666,402	48.0%
June 30, 2010	-	1,646,148	1,646,148	-	3,818,332	43.1
June 30, 2009	-	1,633,159	1,633,159	-	4,292,552	38.0

The Commonwealth of Puerto Rico Judiciary Retirement System (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2011	$ -	$ 5,810	$ 5,810	- %	$31,811	18.3 %
June 30, 2010	-	5,808	5,808	-	32,061	18.1
June 30, 2009	-	5,643	5,643	-	30,587	18.4

Puerto Rico System of Annuities and Pensions for Teachers (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2011	$ -	$ 706,069	$ 706,069	- %	$1,320,400	53.5 %
June 30, 2010	-	694,230	694,230	-	1,370,344	50.7
June 30, 2009	-	750,382	750,382	-	1,418,304	52.9

See accompanying independent auditors' report.

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES

GENERAL FUND

The general fund is the primary operating fund of the Commonwealth. The general fund is used to account for and report all financial resources received and used for those services traditionally provided by a government, which are not required legally or by sound financial management to be accounted for in another fund. Included are transactions for services such as general government, public safety, health, public housing and welfare, education, and economic development. Following is the supplemental schedule of expenditures — budget and actual — general fund.

COMMONWEALTH OF PUERTO RICO

SUPPLEMENTAL SCHEDULE OF EXPENDITURES BY AGENCY — BUDGET AND ACTUAL BUDGET BASIS — GENERAL FUND YEAR ENDED JUNE 30, 2011 (In thousands)

	Original Budget	Amended Budget	Actual
EXPENDITURES:			
Current:			
General government:			
Senate of Puerto Rico	$ 38,549	$ 38,549	$ 41,575
House of Representatives of Puerto Rico	47,025	48,025	49,925
Comptroller’s Office	43,000	43,000	43,012
Governor’s Office	19,870	20,993	21,189
Office of Management and Budget	107,083	52,507	42,611
Planning Board	11,464	10,881	10,688
Department of State	7,145	7,263	6,494
Department of the Treasury	650,313	765,526	724,694
Central Office of Personnel Administration	4,976	5,002	4,927
Commonwealth Elections Commission	36,083	38,853	30,195
Federal Affairs Administration	4,568	4,550	5,180
General Services Administration	200	200	354
Municipal Complaints Hearing Commission	4,365	4,353	6,137
Civil Rights Commission	1,193	1,190	1,166
Office of the Citizen’s Ombudsman	5,376	5,370	5,535
Appellative Board of the Personnel System Administration	1,729	878	876
Legislative Assembly	53,260	34,126	36,135
Commissions for the Public Work Relations	3,059	1,507	1,537
Government Ethics Board	10,290	10,290	10,290
Coordination Office for Special Communities of Puerto Rico	5,181	5,166	3,587
Puerto Rico Statistics Institute	742	742	742
Corporation “Enlace” Caño Martín Peña	1,019	1,019	1,019
Information and Technology Communication Office	-	-	262
Office for the Governmental's Integrity and Efficiency	3,293	3,293	3,118
Permits Management Office	3,211	5,777	6,028
Office of the Permits Inspector General	4,186	4,295	3,631
Board for the Review of Permits and Use of Lands	981	981	964
Public Service Board of Appeals	-	2,354	2,107
Employees’ Retirement System of the Government of the Commonwealth of Puerto Rico	242,625	242,625	247,264
Puerto Rico System of Annuities and Pensions for Teachers	91,928	91,928	91,928
Contributions to Political Parties	1,200	1,200	900
Public Buildings Authority	6,000	6,000	6,000
Total general government	1,409,914	1,458,443	1,410,070
Public safety:			
Puerto Rico General Court of Justice	347,944	347,944	347,963
Civil Defense	6,152	6,117	6,400
Commission of Investigation, Processing and Appeals Board	508	508	463
Department of Justice	127,810	120,855	127,361
Puerto Rico Police Department	729,654	792,906	794,836
Puerto Rico Firefighters Corps	64,073	63,801	63,162
Puerto Rico National Guard	7,573	17,351	23,548
Public Service Commission	7,877	8,258	8,194
Consumer Affairs Department	10,759	10,337	10,362
Juvenile Institutions Administration	57,364	62,524	65,140
Correction Administration	353,169	325,578	317,541
Natural Resources Administration	38,183	39,861	43,129
Department of Correction and Rehabilitation	3,486	5,363	5,437

(Continued)

COMMONWEALTH OF PUERTO RICO

SUPPLEMENTAL SCHEDULE OF EXPENDITURES BY AGENCY — BUDGET AND ACTUAL
BUDGET BASIS — GENERAL FUND
YEAR ENDED JUNE 30, 2011
(In thousands)

	Original Budget	Amended Budget	Actual
EXPENDITURES (Continued):			
Public safety (continued):			
Parole Board	$ 2,528	$ 2,825	$ 2,817
Forensic Sciences Institute	17,037	17,083	16,927
Special Prosecutor Panel	2,000	1,994	1,994
Pre-Trial Services Office	6,175	6,302	6,873
Correctional Health	75,436	71,424	77,713
Medical Emergencies Service	25,803	25,720	25,071
Criminal Justice College	2,787	2,787	2,808
Total public safety	1,886,318	1,929,538	1,947,739
Health:			
Environmental Quality Board	6,595	6,646	17,202
Department of Health	244,846	268,068	303,484
Puerto Rico Medical Services Administration	15,160	15,160	15,160
Mental Health and Drug Addiction Services Administration	97,386	109,725	106,222
Solid Waste Authority	8,308	8,280	8,134
Puerto Rico Health Insurance Administration	1,126,360	1,217,131	1,201,408
Cardiovascular Center Corporation of Puerto Rico and the Caribbean	3,051	3,051	3,051
Total health	1,501,706	1,628,061	1,654,661
Public housing and welfare:			
Office of Youth Affairs	4,729	4,904	4,595
New Business Training Administration	7,594	9,770	9,407
Department of Labor and Human Resources	-	384	1,820
Labor Relations Board	715	774	767
Department of Housing	17,607	21,524	23,319
Department of Recreation and Sports	38,595	43,865	41,925
Administration for the Horse Racing Sport and Industry	2,728	2,719	2,646
Women's Affairs Commission	3,074	3,067	4,237
Public Housing Administration	1,500	1,557	1,211
Office of the Veteran's Ombudsman	2,774	2,761	2,607
Department of Family	36,842	42,160	41,394
Family and Children Administration	181,138	180,889	186,107
Minors Support Administration	11,143	11,215	10,913
Vocational Rehabilitation Administration	18,671	19,242	19,110
Social Economic Development Administration	104,004	90,926	82,969
Office of the Disabled Persons Ombudsman	2,365	2,326	2,385
Office for Elderly Affairs	3,541	3,548	3,534
Right to Employment Administration	7,993	13,451	14,662
Company for the Integral Development of the Península de Cantera	400	400	400
Industries for the Blind, Mentally Retarded, and Other Disabled Persons of Puerto Rico	500	500	500
Patient Ombudsman	2,612	2,632	2,629
Administration for the Care and Development of the Childhood	10,451	9,200	9,089
Total public housing and welfare	458,976	467,814	466,226

(Continued)

COMMONWEALTH OF PUERTO RICO

SUPPLEMENTAL SCHEDULE OF EXPENDITURES BY AGENCY — BUDGET AND ACTUAL
BUDGET BASIS — GENERAL FUND
YEAR ENDED JUNE 30, 2011
(In thousands)

	Original Budget	Amended Budget	Actual
EXPENDITURES (Continued):			
Education:			
Department of Education	$2,111,224	$2,126,954	$1,953,581
Institute of Puerto Rican Culture	22,427	25,292	25,734
Puerto Rico School of Plastics Arts	1,824	1,824	1,802
State Office for Historic Preservation	1,725	1,840	1,837
General Education Council	1,196	1,187	1,192
University of Puerto Rico	756,036	756,036	756,036
Puerto Rico Council on Higher Education	22,798	22,798	25,750
Musical Arts Corporation	7,622	8,626	8,618
Fine Arts Center Corporation	4,525	4,525	4,493
Puerto Rico Public Broadcasting Corporation	16,823	16,914	16,787
Athenaeum of Puerto Rico	500	500	500
Puerto Rico Conservatory of Music Corporation	5,161	4,347	4,347
Total education	2,951,861	2,970,843	2,800,677
Economic development:			
Department of Transportation and Public Works	58,311	60,530	66,816
Department of Natural and Environmental Resources	1,026	8,153	3,275
Department of Agriculture	17,593	21,120	21,726
Cooperative Enterprises Development Administration	3,392	3,435	3,093
Puerto Rico Highways and Transportation Authority	-	-	15,847
Rural Development Corporation	1,209	848	858
Department of Economic Development and Commerce	3,538	3,538	3,709
Energy Affairs Administration	373	872	1,038
Puerto Rico Aqueduct and Sewer Authority	-	165	170
Puerto Rico Ports Authority	900	900	900
Puerto Rico Electric Power Authority	-	-	7
Puerto Rico Metropolitan Bus Authority	33,775	33,203	35,949
Puerto Rico Land Administration	-	-	733
Puerto Rico Maritime Transportation Authority	24,157	24,178	27,270
Agricultural Enterprises Development Administration	81,243	85,312	84,780
Culebra Conservation and Development Authority	310	310	303
National Parks Company of Puerto Rico	19,939	26,853	25,976
Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico	527	527	150
Puerto Rico Trade and Export Company	1,000	1,000	1,050
Puerto Rico Infrastructure Financing Authority	117,000	117,000	117,000
Roosevelt Roads Redevelopment Authority	-	3,085	3,085
Puerto Rico Tourism Company	4,000	4,110	4,118
Total economic development	368,293	395,139	417,853
Intergovernmental — Municipal Services Administration	371,619	370,869	378,243
Total intergovernmental	371,619	370,869	378,243
TOTAL EXPENDITURES	$8,948,687	$9,220,707	$9,075,469
OPERATING TRANSFER-OUT TO OTHER FUNDS:			
Office of Management and Budget	-	-	267,105
Transfer of Treasury — transfer to Debt Service Fund and other funds	200,813	200,813	1,280,459
	$ 200,813	$ 200,813	$1,547,564

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Other resources (investment earnings and transfers from other funds, for example) also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund.

Public Buildings Authority Special Revenue Fund — The operating fund of the Public Buildings Authority, a blended component unit, used to account for the operation, maintenance, equipment replacement, and other extraordinary operation and maintenance costs of the buildings and facilities that, when constructed, are leased to the Commonwealth's primary government agencies.

The Children's Trust Special Revenue Fund — The special revenue fund of the Children's Trust, a blended component unit, is used to account for the money received by the Commonwealth from a global settlement agreement dated November 23, 1998 between certain tobacco companies and certain states, territories, and other jurisdictions of the United State of America, including the Commonwealth. The financial resources received by this fund are used to carry out projects aimed at promoting the well-being of children and youth of Puerto Rico.

Debt Service Funds

The debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest, and related costs other than bonds payable from operations of proprietary fund types, pension trust funds, and discretely presented component units. Long-term debt and interest due on July 1 of the following year are accounted for as a fund liability if resources are available as of June 30 for its payment.

The Children's Trust Debt Service Fund — The debt service fund of The Children's Trust accounts for the financial resources that are restricted, committed, or assigned to expenditure for the payment of interest and principal on long-term obligations financed with moneys to be received by the Commonwealth from the global settlement agreement signed by certain tobacco companies.

Public Buildings Authority Debt Service Fund — A blended component unit engaged in the construction and/or acquisition of building facilities for lease mainly to the Commonwealth's primary government agencies. Its debt service fund is used to account the financial resources that are restricted, committed, or assigned to expenditure for the payment of revenue bonds and other liabilities incurred to finance the construction of the buildings and facilities.

Puerto Rico Maritime Shipping Authority Debt Service Fund — This is the remainder of a former shipping company owned by the Commonwealth. Its debt service fund is used to account for the financial resources that are restricted, committed, or assigned to expenditure for the payment of the long-term liability that resulted from the sale of its marine operations. This fund is mainly subsidized from appropriations and operating transfers from the general fund.

Capital Projects Funds

Capital project funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets not being financed by the Public Buildings Authority's Capital Projects Fund, proprietary fund types, pension trust funds, and discretely presented component units.

Public Buildings Authority's Capital Projects Fund — The Public Buildings Authority's capital projects fund is used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets not financed by proprietary fund types, pension trust funds, and discretely presented component units.

Commonwealth Public Improvements Funds and Other Funds — These funds present the activities of the capital improvements program of the Commonwealth, financed with the proceeds of the general obligation bonds.

COMMONWEALTH OF PUERTO RICO

COMBINING BALANCE SHEET — NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2011
(In thousands)

	Special Revenue		Debt Service			Capital Projects		
ASSETS	Public Buildings Authority	The Children's Trust	The Children's Trust	Public Buildings Authority	Puerto Rico Maritime Shipping Authority	Commonwealth of Puerto Rico	Public Buildings Authority	Total Nonmajor Governmental Funds
CASH AND CASH EQUIVALENTS IN COMMERCIAL BANKS	$ 34,698	$ -	$ -	$ -	$ -	$ -	$ -	$ 34,698
CASH AND CASH EQUIVALENTS IN GOVERNMENTAL BANKS	3	21,671	-	-	1,752	-	-	23,426
INVESTMENTS	-	25,816	111,127	-	-	-	-	136,943
RECEIVABLES — Net of allowance for uncollectibles:								
Accounts	918	-	-	-	-	671	-	1,589
Loans	-	-	-	-	-	39	-	39
Accrued interest	-	1	451	-	-	-	-	452
Other	530	-	40,576	-	-	-	-	41,106
DUE FROM:								
Other funds	99,578	-	-	-	-	4,786	-	104,364
Component units	33,737	-	-	-	-	-	-	33,737
Other governmental entities	6,443	-	-	-	-	-	-	6,443
RESTRICTED ASSETS:								
Cash and cash equivalents in commercial banks	-	-	-	143,426	484	32,904	65,345	242,159
Cash and cash equivalents in governmental banks	-	-	-	85,386	37	172,784	-	258,207
REAL ESTATE HELD FOR SALE OR FUTURE DEVELOPMENT	3,084	-	-	-	-	1,853	-	4,937
TOTAL ASSETS	$178,991	$47,488	$152,154	$228,812	$2,273	$213,037	$65,345	$888,100

(Continued)

COMMONWEALTH OF PUERTO RICO

COMBINING BALANCE SHEET — NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2011
(In thousands)

	Special Revenue		Debt Service			Capital Projects		Total
LIABILITIES AND FUND BALANCES	Public Buildings Authority	The Children's Trust	The Children's Trust	Public Buildings Authority	Puerto Rico Maritime Shipping Authority	Commonwealth of Puerto Rico	Public Buildings Authority	Nonmajor Governmental Funds
LIABILITIES:								
Accounts payable and accrued liabilities	$ 1,790	$ 804	$ -	$ -	$ 609	$ 20,130	$20,967	$ 44,300
Due to:								
Other funds	1,684	-	-	-	-	-	-	1,684
Other governmental entities	2,934	-	-	-	-	-	26,031	28,965
Component units	15,974	-	-	-	-	-	9,043	25,017
Bonds payable	-	-	-	81,002	-	-	-	81,002
Interest payable	-	-	-	82,219	-	-	-	82,219
Deferred revenue	88,917	-	40,576	-	-	-	-	129,493
Other current liabilities	-	-	-	-	-	2,364	-	2,364
Total liabilities	111,299	804	40,576	163,221	609	22,494	56,041	395,044
FUND BALANCES:								
Restricted for:								
Debt service	-	-	111,578	65,591	1,664	-	-	178,833
Capital projects	-	-	-	-	-	190,543	9,304	199,847
Committed to:								
Special revenue	-	39,624	-	-	-	-	-	39,624
Capital projects	-	-	-	-	-	-	-	-
Assigned to:								
Capital projects	-	-	-	-		-	-	-
Special revenue	67,692	7,060	-	-	-	-	-	74,752
Unassigned	-	-	-	-	-	-	-	-
Total fund balances	67,692	46,684	111,578	65,591	1,664	190,543	9,304	493,056
TOTAL LIABILITIES AND FUND BALANCES	$178,991	$47,488	$152,154	$228,812	$2,273	$213,037	$65,345	$888,100

See accompanying independent auditors' report.

(Concluded)

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES — NONMAJOR GOVERNMENTAL FUN
YEAR ENDED JUNE 30, 2011
(In thousands)

	Special Revenue		Debt Service			Capital Projects		Total
	Public Buildings Authority	The Children's Trust	The Children's Trust	Public Buildings Authority	Puerto Rico Maritime Shipping Authority	Commonwealth of Puerto Rico	Public Buildings Authority	Total Nonmajor Governmental Funds
REVENUES:								
Interest and investment earnings	$ 157	$ 50	$ 3,400	$ -	$ 1	$ -	$ -	$ 3,608
Intergovernmental	-	-	-	-	-	-	1,075	1,075
Other	2,627	-	-	-	-	-	-	2,627
Total revenues	2,784	50	3,400	-	1	-	1,075	7,310
EXPENDITURES:								
Current:								
General government	138,923	498	15	-	-	-	-	139,436
Health	-	4,359	-	-	-	-	-	4,359
Public housing and welfare	-	1,254	-	-	-	-	-	1,254
Education	-	2,527	-	-	-	-	-	2,527
Economic development	-	-	-	-	108	-	-	108
Intergovernmental	-	469	-	-	-	-	-	469
Capital outlays	-	-	-	-	-	62,623	162,856	225,479
Debt service:								
Principal	876	-	19,610	84,850	-	-	-	105,336
Interest	4,764	-	55,410	140,081	5,859	-	-	206,114
Total expenditures	144,563	9,107	75,035	224,931	5,967	62,623	162,856	685,082
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(141,779)	(9,057)	(71,635)	(224,931)	(5,966)	(62,623)	(161,781)	(677,772)
OTHER FINANCING SOURCES (USES):								
Transfers in	315,423	2	71,095	255,875	5,859	-	149,194	797,448
Transfers out	(405,069)	-	-	-	-	-	(42,678)	(447,747)
Proceeds from long term debt issued	239,211	-	-	-	-	13,111	-	252,322
Total other financing sources	149,565	2	71,095	255,875	5,859	13,111	106,516	602,023
NET CHANGE IN FUND BALANCES	7,786	(9,055)	(540)	30,944	(107)	(49,512)	(55,265)	(75,749)
FUND BALANCES — Beginning of year (as restated)	59,906	55,739	112,118	34,647	1,771	240,055	64,569	568,805
FUND BALANCES — End of year	$ 67,692	$46,684	$111,578	$ 65,591	$ 1,664	$190,543	$ 9,304	$ 493,056

See accompanying independent auditors' report.

NONMAJOR PROPRIETARY FUNDS

Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the government is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Disability Insurance — It was created by Act No. 139 on June 26, 1968. It is used to account for disability benefits to remedy temporarily the loss of income as a result of disability caused by sickness or accident unrelated to the employment.

Drivers' Insurance — It was created by Act No. 428 on May 15, 1950. It is used to account for contributions made by the drivers and their employers to provide a social security plan for the benefit of the drivers in Puerto Rico. The plan also includes payment of benefits for health and life insurance.

Puerto Rico Water Pollution Control Revolving Fund — It was created by Act No. 44 on June 21, 1988, as amended. It is administered, pursuant to Act No. 9 of June 18, 1970, as amended, by the Puerto Rico Environmental Quality Board (EQB). Pursuant to such Act, EQB is authorized to enter into operating agreements and capitalization grant agreements with the U.S. Environmental Protection Agency (EPA) for lending activities.

Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund — It was created by Act No. 32 on July 7, 1997. It is administered, pursuant to Act No. 9 of June 18, 1970, as amended, by the Puerto Rico Department of Health (DOH). Pursuant to such act, DOH, on behalf of the Commonwealth, is authorized to enter into operating and capitalization grant agreements with the EPA for lending activities.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF NET ASSETS — NONMAJOR PROPRIETARY FUNDS
JUNE 30, 2011
(In thousands)

	Business-Type Activities — Nonmajor Enterprise Funds				
	Disability Insurance	Drivers' Insurance	Puerto Rico Water Pollution Control Revolving Fund	Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund	Total
ASSETS					
Current assets:					
Cash and cash equivalents in commercial banks	$ 43	$ 18	$ -	$ -	$ 61
Cash and cash equivalents in governmental banks	51,531	10,321	-	-	61,852
Cash and cash equivalents in commercial banks — restricted	473	-	-	-	473
Cash and cash equivalents in governmental banks — restricted	-	-	70,531	21,346	91,877
Insurance premiums receivables, net	2,809	1,061	-	-	3,870
Due from other funds	-	2,682	-	-	2,682
Loans receivable from component unit — restricted	-	-	11,751	4,796	16,547
Accrued interest receivable	312	-	-	-	312
Restricted receivables	-	-	3,172	1,396	4,568
Other receivables	-	37	-	-	37
Total current assets	55,168	14,119	85,454	27,538	182,279
Noncurrent assets:					
Loans receivable from component unit — restricted	-	-	255,213	141,689	396,902
Due from other funds	-	18,116	-	-	18,116
Restricted investments	35,157	-	-	-	35,157
Other restricted assets	-	-	1,251	-	1,251
Total assets	90,325	32,235	341,918	169,227	633,705
LIABILITIES AND NET ASSETS					
Current liabilities:					
Accounts payable and accrued liabilities	656	165	1,721	108	2,650
Due to other funds	803	-	-	-	803
Due to other governmental entities	314	155	-	-	469
Deferred revenue	2,051	19	-	-	2,070
Compensated absences	554	329	-	-	883
Insurance benefits payable	432	123	-	-	555
Total current liabilities	4,810	791	1,721	108	7,430
Noncurrent liabilities:					
Due to other governmental entities	164	85	-	-	249
Compensated absences	735	494	-	-	1,229
Total liabilities	5,709	1,370	1,721	108	8,908
NET ASSETS:					
Restricted for payment of insurance benefits	35,198	-	-	-	35,198
Restricted for lending activities	-	-	340,197	169,119	509,316
Unrestricted	49,418	30,865	-	-	80,283
TOTAL NET ASSETS	$ 84,616	$ 30,865	$340,197	$169,119	$624,797

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS — NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011
(In thousands)

	Business-Type Activities — Nonmajor Enterprise Funds				
	Disability Insurance	Drivers' Insurance	Puerto Rico Water Pollution Control Revolving Fund	Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund	Total
OPERATING REVENUES:					
Insurance premiums	$ 17,591	$ 4,515	$ -	$ -	$ 22,106
Interest	-	3	5,290	2,712	8,005
Total operating revenues	17,591	4,518	5,290	2,712	30,111
OPERATING EXPENSES:					
Insurance benefits	2,617	796	-	-	3,413
General, administrative, and other operating expenses	11,949	3,890	856	238	16,933
Total operating expenses	14,566	4,686	856	238	20,346
OPERATING INCOME (LOSS)	3,025	(168)	4,434	2,474	9,765
NONOPERATING REVENUES (EXPENSES):					
Contributions from U.S. government	-	-	22,157	22,180	44,337
Contributions to component unit	-	-	(16,381)	(3,317)	(19,698)
Interest and investment earnings	4,794	27	-	-	4,821
Total nonoperating revenues	4,794	27	5,776	18,863	29,460
INCOME (LOSS) BEFORE TRANSFERS	7,819	(141)	10,210	21,337	39,225
TRANSFERS FROM OTHER FUNDS	-	-	-	3,073	3,073
TRANSFERS TO OTHER FUNDS	(3,147)	(97)	-	-	(3,244)
NET CHANGE IN NET ASSETS	4,672	(238)	10,210	24,410	39,054
NET ASSETS — Beginning of year, as restated	79,944	31,103	329,987	144,709	585,743
NET ASSETS — End of year	$ 84,616	$ 30,865	$ 340,197	$ 169,119	$ 624,797

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF CASH FLOWS — NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011
(In thousands)

	Business-Type Activities — Nonmajor Enterprise Funds				
	Disability Insurance	Drivers' Insurance	Puerto Rico Water Pollution Control Revolving Fund	Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers and users	$17,657	$ 4,468	$ -	$ -	$ 22,125
Other receipts	-	3	-	-	3
Payments to suppliers	(7,468)	(933)	-	-	(8,401)
Payments to employees	(4,976)	(3,223)	-	-	(8,199)
Payments of insurance benefits	(2,745)	(986)	-	-	(3,731)
Other payments	-	-	(294)	(226)	(520)
Net cash provided by (used in) operating activities	2,468	(671)	(294)	(226)	1,277
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Intergovernmental grants and contributions	-	-	22,157	22,180	44,337
Contributions to component unit	-	-	(16,381)	(3,317)	(19,698)
Transfers from other funds	-	-	-	3,307	3,307
Transfers to other funds	(3,147)	(97)	-	-	(3,244)
Net cash provided by (used in) noncapital financing activities	(3,147)	(97)	5,776	22,170	24,702
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest collected on deposits, investments and loans	1,162	56	4,995	2,509	8,722
Loans originated	-	-	(30,224)	(25,920)	(56,144)
Principal collected on loans	-	-	13,064	5,541	18,605
Proceeds from sales and maturities of investments	7,851	-	-	-	7,851
Purchases of investments	(8,491)	-	-	-	(8,491)
Net cash provided by (used in) investing activities	522	56	(12,165)	(17,870)	(29,457)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(157)	(712)	(6,683)	4,074	(3,478)
CASH AND CASH EQUIVALENTS — Beginning of year, as restated	52,204	11,051	77,214	17,272	157,741
CASH AND CASH EQUIVALENTS — End of year	$52,047	$10,339	$ 70,531	$ 21,346	$154,263
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:					
Operating income (loss)	$ 3,025	$ (168)	$ 4,434	$ 2,474	$ 9,765
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Interests earned on deposits, loans and investments	-	-	(5,290)	(2,712)	(8,002)
Changes in operating assets and liabilities:					
(Increase) decrease in accounts receivable	457	(44)	(412)	-	1
Decrease in due from other funds	7	-	-	-	7
Decrease in other restricted assets	-	-	118	-	118
Increase (decrease) in accounts payable and accrued liabilities	(59)	(103)	856	12	706
Decrease in due to other governmental entities	(512)	(3)	-	-	(515)
Decrease in deferred revenues	(399)	(153)	-	-	(552)
Increase (decrease) in compensated absences	77	(10)	-	-	67
Decrease in liability for insurance benefits payable	(128)	(190)	-	-	(318)
Total adjustments	(557)	(503)	(4,728)	(2,700)	(8,488)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 2,468	$ (671)	$ (294)	$ (226)	$ 1,277

See accompanying independent auditors' report.

FIDUCIARY FUNDS

Fiduciary funds are used to account for funds held by the Commonwealth in a trustee capacity, or as an agent for individuals, organizations, and other governmental units. Following are the Commonwealth's fiduciary funds:

Pension Trust Funds

The pension trust funds are used to account for the assets, liabilities, and net assets available for pension benefits held in trust for the public employees of the Commonwealth.

Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) — ERS is a defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration and was created by Act No. 447 on May 15, 1951. ERS is sponsored by the Commonwealth, public corporations, and municipalities of Puerto Rico. Substantially all full-time employees of the Commonwealth and its instrumentalities are covered by ERS.

Puerto Rico System of Annuities and Pensions for Teachers (TRS) — TRS is a defined benefit pension plan administered by the Puerto Rico Teachers Retirement System and was created by Act No. 91 of March 29, 2004, that superseded Act No. 218 of May 6, 1951. TRS is sponsored by the Commonwealth. Substantially, all active teachers of the Commonwealth's Department of Education are covered by TRS. Licensed teachers working in private schools or other educational organizations can be members of TRS at their own choice as long as the required employer and employee contributions are satisfied.

Commonwealth of Puerto Rico Judiciary Retirement System (JRS) — JRS is a defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration and was created by Act No. 12 on October 19, 1954. JRS provides retirement benefits to the employees of the judiciary branch of the Commonwealth, through the office of the Administration of Court Facilities.

Agency Fund

Agency fund is used to account for assets held by the Commonwealth as an agent for individuals, private organizations, and other governments. This fund is custodial in nature (assets equal liabilities) and does not involve measurement of the results of operations.

Special Deposits — This fund acts in a fiduciary capacity in order to account for moneys received with specified purposes for which the law does not specify its recording in any other fund. It mainly includes deposits under the custody of the courts of justice for alimony payments, escrows, revenue collections and agency accounts for which the Commonwealth act in an agent's capacity.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF FIDUCIARY NET ASSETS — PENSION TRUST FUNDS
JUNE 30, 2011
(In thousands)

	Pension Trust Funds			
	Employees' Retirement System (ERS)	Teachers' Retirement System (TRS)	Judiciary Retirement System (JRS)	Total
ASSETS:				
Cash and cash equivalents in commercial banks — unrestricted	$ 391,505	$ 97,379	$ 6,409	$ 495,293
Cash and cash equivalents in governmental banks:				
Unrestricted	51,396	3,291	1,011	55,698
Restricted	411,946	-	-	411,946
Collateral for securities lending transactions	134,319	70,938	3,218	208,475
Investments:				
Debt and equity securities, at fair value	2,396,650	1,802,853	62,090	4,261,593
Other	65,457	25,630	-	91,087
Receivables — net:				
Accounts	190,299	-	-	190,299
Loans and advances	1,275,381	406,664	845	1,682,890
Accrued interest and dividends	7,594	3,982	263	11,839
Other	15,022	47,203	27	62,252
Capital assets — net	8,951	22,204	-	31,155
Other assets	38,547	472	-	39,019
Total assets	4,987,067	2,480,616	73,863	7,541,546
LIABILITIES:				
Accounts payable and accrued liabilities	75,766	22,874	5,562	104,202
Securities lending transactions	134,319	70,938	3,218	208,475
Interest payable	13,876	-	-	13,876
Other liabilities	35,813	941	1,108	37,862
Bonds payable	3,003,482	-	-	3,003,482
Total liabilities	3,263,256	94,753	9,888	3,367,897
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER BENEFITS	$ 1,723,811	$ 2,385,863	$ 63,975	$ 4,173,649

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS — PENSION TRUST FUNDS
YEAR ENDED JUNE 30, 2011
(In thousands)

	Pension Trust Funds			
	Employees' Retirement System (ERS)	Teachers' Retirement System (TRS)	Judiciary Retirement System (JRS)	Total
ADDITIONS:				
Contributions:				
Sponsor	$ 511,707	$ 112,071	$ 9,966	$ 633,744
Participants	322,008	123,297	2,789	448,094
Special	187,674	48,581	629	236,884
Total contributions	1,021,389	283,949	13,384	1,318,722
Investment income and investment expense:				
Interest	172,783	57,008	1,352	231,143
Dividends	7,344	6,915	176	14,435
Net change in fair value of investments	472,076	421,923	12,928	906,927
Investment expenses	(6,483)	(4,682)	(162)	(11,327)
Net investment income	645,720	481,164	14,294	1,141,178
Other income	49,257	968	10	50,235
Total additions	1,716,366	766,081	27,688	2,510,135
DEDUCTIONS:				
Pension and other benefits	1,329,227	562,160	18,627	1,910,014
Refunds of contributions	91,195	8,465	-	99,660
General and administrative	47,782	31,570	496	79,848
Interest on bonds payable	189,342	-	-	189,342
Total deductions	1,657,546	602,195	19,123	2,278,864
NET CHANGE IN NET ASSETS HELD IN TRUST FOR PENSION AND OTHER BENEFITS	58,820	163,886	8,565	231,271
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER BENEFITS:				
Beginning of year	1,664,991	2,221,977	55,410	3,942,378
End of year	$ 1,723,811	$ 2,385,863	$ 63,975	$ 4,173,649

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES — AGENCY FUNDS
YEAR ENDED JUNE 30, 2011
(In thousands)

	Balance at June 30, 2010	Additions	Deletions	Balance at June 30, 2011
ASSETS				
CASH AND CASH EQUIVALENTS IN COMMERCIAL BANKS	$ 697,402	$ 586	$ -	$ 697,988
CASH AND CASH EQUIVALENTS IN GOVERNMENTAL BANKS	800,511	3,985,798	4,124,749	661,560
OTHER RECEIVABLES	-	9,393	-	9,393
OTHER INVESTMENTS	1,226	44	-	1,270
TOTAL ASSETS	$ 1,499,139	$ 3,995,821	$ 4,124,749	$ 1,370,211
LIABILITIES				
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 1,499,139	$ 3,995,821	$ 4,124,749	$ 1,370,211
TOTAL LIABILITIES	$ 1,499,139	$ 3,995,821	$ 4,124,749	$ 1,370,211

See accompanying independent auditors' report.

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS

These entities are presented because the nature and significance of their relationship with the primary government are such that their exclusion would cause the basic financial statements to be misleading. These are discretely presented in a separate column in the basic financial statements due to the nature of the services they provide. The accounting principles followed by each of the component units included herein may vary depending on the type of industries they are involved in (that is, banking, construction, public utilities, and so forth). The detailed information for each of these entities may be obtained directly from the administrative offices of the corresponding entities, as described in Note 1 to the basic financial statements included in the financial section of this report.

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2011
(In thousands)

ASSETS	Agricultural Enterprises Development Administration	Automobile Accidents Compensations Administration	Cardiovascular Center Corporation of Puerto Rico and the Caribbean	Company for the Integral Development of the Península Cantera	Corporation for the "Caño Martín Peña" ENLACE Project	Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico	Culebra Conservation and Development Authority
CURRENT ASSETS:							
Cash and cash equivalents in commercial banks	$ 8,926	$ 10,986	$ 8,448	$ 3,512	$ 889	$11,700	$ 68
Cash and cash equivalents in governmental banks	23,388	-	-	-	-	2,243	-
Investments	-	147,514	-	-	-	-	-
Restricted assets:							
Cash and cash equivalents in commercial banks	-	-	-	-	-	-	-
Cash and cash equivalents in governmental banks	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-
Other restricted assets	-	-	-	-	-	-	-
Collateral from securities lending transactions	-	-	-	-	-	-	-
Receivables — net:							
Insurance premium	-	666	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Accounts	5,767	-	9,380	-	-	-	2
Loans and advances	-	-	-	10	-	1,925	-
Accrued interest	-	782	-	-	-	-	-
Other governmental entities	3,129	234	1,379	518	415	540	-
Other	4,103	1,436	-	48	-	-	-
Due from:		-					
Primary government	14,718	-	1,490	20,217	-	-	-
Component units	-	-	-	-	-	-	-
Inventories	10,670	-	2,434	-	-	-	-
Prepaid expenses	1,808	-	312	42	9	-	-
Total current assets	72,509	161,618	23,443	24,347	1,313	16,408	70
NONCURRENT ASSETS:							
Restricted assets:							
Cash and cash equivalents in commercial banks	-	12	922	-	35	-	64
Cash and cash equivalents in governmental banks	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-
Other restricted assets	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-
Receivables:							
Loans, interest, and other	-	-	-	6,357	-	-	-
Other governmental agencies	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Due from:							
Primary government	-	-	-	-	-	-	-
Component units	-	-	-	-	-	-	-
Deferred outflows of resources	-	-	-	-	-	-	-
Deferred expenses and other assets	-	31	-	5	-	-	5
Property held for sale or future development	-	-	-	1,344	-	-	-
Capital assets, not being depreciated	3,656	901	103	80	3,383	-	640
Capital assets, depreciable — net	33,427	6,687	17,470	65	746	-	347
Total noncurrent assets	37,083	7,631	18,495	7,851	4,164	-	1,056
TOTAL ASSETS	$109,592	$169,249	$41,938	$32,198	$ 5,477	$16,408	$1,126

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2010
(In thousands)

	Economic Development Bank for Puerto Rico	Employment and Training Enterprises Corporation	Farm Insurance Corporation of Puerto Rico	Fine Arts Center Corporation	Governing Board of the 9-1-1- Service	Institute of Puerto Rican Culture	Institutional Trust of the National Guard of Puerto Rico
ASSETS							
CURRENT ASSETS:							
Cash and cash equivalents in commercial banks	$ 664	$ -	$12,396	$ 8,344	$ -	$ 2,487	$ -
Cash and cash equivalents in governmental banks	2,951	-	-	-	17,637	340	5,667
Investments	313,123	-	-	-	-	-	-
Restricted assets:							
Cash and cash equivalents in commercial banks	2,846	-	-	-	-	17,329	-
Cash and cash equivalents in governmental banks	-	-	-	-	-	2,985	-
Investments	-	-	-	-	-	-	-
Other restricted assets	-	-	-	-	-	-	-
Collateral from securities lending transactions	-	-	-	-	-	-	-
Receivables — net:							
Insurance premium	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	1,543	79
Accounts	-	-	3,273	88	1,822	142	800
Loans and advances	88,776	-	-	-	-	-	-
Accrued interest	7,219	-	-	-	-	-	-
Other governmental entities	-	1,249	-	228	-	599	29
Other	-	-	-	-	12	-	-
Due from:							
Primary government	-	-	-	-	-	-	-
Component units	-	-	-	-	-	-	-
Inventories	-	206	-	-	28	1,760	-
Prepaid expenses	-	-	236	83	25	-	9
Total current assets	415,579	1,455	15,905	8,743	19,524	27,185	6,584
NONCURRENT ASSETS:							
Restricted assets:							
Cash and cash equivalents in commercial banks	-	-	-	546	-	-	-
Cash and cash equivalents in governmental banks	-	367	-	-	9,253	-	-
Investments	-	-	-	-	16,755	-	-
Other restricted assets	5,625	-	-	-	-	-	-
Investments	816,942	-	-	-	4,062	-	54,663
Receivables:							
Loans, interest, and other	126,093	-	-	-	-	-	-
Other governmental agencies	556	-	7,139	-	-	-	-
Other	-	-	-	-	-	-	-
Due from:							
Primary government	-	-	-	-	-	-	-
Component units	-	-	-	-	-	-	-
Deferred outflows of resources	-	-	-	-	-	-	-
Deferred expenses and other assets	4,836	-	-	-	-	-	-
Property held for sale or future development	-	-	-	-	-	-	2,452
Capital assets, not being depreciated	2,735	-	-	3,196	713	9,473	18,258
Capital assets, depreciable — net	6,667	107	189	12,578	2,086	56,290	5,650
Total noncurrent assets	963,454	474	7,328	16,320	32,869	65,763	81,023
TOTAL ASSETS	$1,379,033	$1,929	$23,233	$25,063	$52,393	$92,948	$87,607

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2011
(In thousands)

ASSETS	Land Authority of Puerto Rico	Musical Arts Corporation	National Parks Company of Puerto Rico	Port of the Americas Authority	Public Corporation for the Supervision and Deposit Insurance of PR Cooperatives	Puerto Rico Conservatory of Music Corporation	Puerto Rico Convention Center District Authority
CURRENT ASSETS:							
Cash and cash equivalents in commercial banks	$ 4,348	$2,185	$ 3,819	$ -	$ -	$ 154	$ 17,143
Cash and cash equivalents in governmental banks	22,694	185	-	2,552	5,052	-	1,122
Investments	-	-	-	-	19,844	-	-
Restricted assets:							
Cash and cash equivalents in commercial banks	-	8	-	-	-	135	-
Cash and cash equivalents in governmental banks	-	546	-	-	-	-	13,300
Investments	-	-	-	-	-	-	23,565
Other restricted assets	-	-	-	-	-	-	-
Collateral from securities lending transactions	-	-	-	-	-	-	-
Receivables — net:					-		
Insurance premium	-	-	-	-	-	-	-
Intergovernmental	8,166	-	-	-	-	-	-
Accounts	14,501	51	383	2	-	-	8,794
Loans and advances	-	-	-	-	-	-	-
Accrued interest	-	-	-	-	1,373	-	-
Other governmental entities	2,032	219	249	-	-	948	-
Other	-	-	-	-	7	2,767	-
Due from:							
Primary government	6,635	-	-	-	-	-	-
Component units	19,425	-	-	-	-	-	14,929
Inventories	-	-	-	-		-	-
Prepaid expenses	10	-	141	118	-	36	1,353
Total current assets	77,811	3,194	4,592	2,672	26,276	4,040	80,206
NONCURRENT ASSETS:							
Restricted assets:							
Cash and cash equivalents in commercial banks	-	-	22,348	-	-	1,753	-
Cash and cash equivalents in governmental banks	119	-	125	-	-	-	11,837
Investments	-	-	-	-	-	-	33,364
Other restricted assets	-	-	-	-	-	-	-
Investments	-	-	-	-	166,211	-	-
Receivables:							
Loans, interest, and other	-	-	-	-	3,300	-	-
Other governmental agencies	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	7,354
Due from:							
Primary government	-	-	-	-	-	-	-
Component units	-	-	-	-	-	-	-
Deferred outflows of resources	-	-	-	-	-	-	-
Deferred expenses and other assets	8,559	-	-	-	-	-	14,226
Property held for sale or future development	-	-	-	-	-	-	-
Capital assets, not being depreciated	82,716	568	19,148	291,668	-	34,756	281,722
Capital assets, depreciable — net	9,864	227	161,794	7	3,071	44,545	406,122
Total noncurrent assets	101,258	795	203,415	291,675	172,582	81,054	754,625
TOTAL ASSETS	$179,069	$3,989	$208,007	$294,347	$198,858	$85,094	$834,831

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2011
(In thousands)

ASSETS	Puerto Rico Council on Higher Education	Puerto Rico Industrial Development Company	Puerto Rico Industrial, Tourist, Educational, Medical and Environmental, Control Facilities Financing Authority	Puerto Rico Infrastructure Financing Authority	Puerto Rico Land Administration	Puerto Rico and Municipal Islands Maritime Transport Authority	Puerto Rico Medical Services Administration	Puerto Rico Metropolitan Bus Authority
CURRENT ASSETS:								
Cash and cash equivalents in commercial banks	$ 12	$ 4,839	$ -	$ -	$ 1,848	$ 291	$ 2,871	$ 1,647
Cash and cash equivalents in governmental banks	2,473	-	9,094	1,633	42,614	-	-	2,644
Investments	-	-	-	-	8,164	-	-	-
Restricted assets:								
Cash and cash equivalents in commercial banks	-	-	-	119,867	-	-	-	-
Cash and cash equivalents in governmental banks	1,398	-	-	39,985	-	-	-	-
Investments	6,992	10,033	-	7,266	-	-	-	-
Other restricted assets	-	-	-	-	-	-	-	-
Collateral from securities lending transactions	-	-	-	-	-	-	-	-
Receivables — net:								
Insurance premium	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	2,668	-	-
Accounts	-	26,762	-	66,033	2,551	89	17,870	298
Loans and advances	-	318	1	-	-	-	-	-
Accrued interest	-	-	269	16	467	-	-	-
Other governmental entities	33	-	-	1,930	382	228	33,931	2,443
Other	28	1,246	-	-	524	-	-	-
Due from:			-					
Primary government	-	-	-	3,433	-	-	10,152	1,108
Component units	-	-	2,599	-	1,306	-	6,699	4,368
Inventories	-	-	-	-	-	63	2,271	3,320
Prepaid expenses	-	1,955	-	374	94	1,774	890	2,281
Total current assets	10,936	45,153	11,963	240,537	57,950	5,113	74,684	18,109
NONCURRENT ASSETS:								
Restricted assets:								
Cash and cash equivalents in commercial banks	-	-	-	-	-	-	10,996	-
Cash and cash equivalents in governmental banks	-	-	-	-	-	-	-	-
Investments	-	41,435	-	165,269	-	-	-	-
Other restricted assets	-	-	-	38,893	-	-	-	-
Investments	-	93	-	-	-	-	-	-
Receivables:			-					
Loans, interest, and other	-	335	-	-	-	-	-	-
Other governmental agencies	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Due from:			-					
Primary government	-	-	-	-	-	-	-	-
Component units	-	-	26,485	-	-	-	-	-
Deferred outflows of resources	-	-	-	-	-	-	-	-
Deferred expenses and other assets		2,070	20,872	38,269			-	542
Property held for sale or future development	-	44,332	-	-	153,678	-	-	-
Capital assets, not being depreciated	-	211,421	-	105,615	26,675	16,031	6,872	8,319
Capital assets, depreciable — net	258	462,025	-	125	10,091	36,922	48,733	58,389
Total noncurrent assets	258	761,711	47,357	348,171	190,444	52,953	66,601	67,250
TOTAL ASSETS	$11,194	$806,864	$59,320	$588,708	$248,394	$58,066	$141,285	$85,359

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2011
(In thousands)

ASSETS	Puerto Rico Municipal Finance Agency	Puerto Rico Ports Authority	Puerto Rico Public Broadcasting Corporation	Puerto Rico Public Private Partnerships Authority	Puerto Rico School of Plastic Arts	Solid Waste Authority	Puerto Rico Telephone Authority	Puerto Rico Tourism Company
CURRENT ASSETS:								
Cash and cash equivalents in commercial banks	$ -	$ 7,807	$ 1,682		$ 20	$ 244	$ -	$ 27,704
Cash and cash equivalents in governmental banks	5,717	-	5	1,193	154	3,189	7,963	8,243
Investments	-	-	-	-	-	19,314	-	8,333
Restricted assets:								
Cash and cash equivalents in commercial banks	3,736	16,892	1,594	-	-	-	-	-
Cash and cash equivalents in governmental banks	-	288	-	-	-	10,847	-	-
Investments	80,834	-	-	-	-	-	-	-
Other restricted assets	28,120	2,336	-	-	-	-	-	-
Collateral from securities lending transactions	-	-	-	-	-	-	-	-
Receivables — net:								
Insurance premium	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-
Accounts	-	17,258	428	-	587	-	-	6,923
Loans and advances	-	-	-	-	-	-	-	12,587
Accrued interest	-	-	-	-	-	-	1	-
Other governmental entities	-	-	514	-	378	1,426	-	-
Other	-	-	215	-	-	1,288	-	179
Due from:			-					
Primary government	-	-	-	2,404	-	1,494	-	-
Component units	-	-	-	-	-	-	-	-
Inventories	-	-	-	6	-	-	-	-
Prepaid expenses	282	5,109	24	-	-	145	-	315
Total current assets	118,689	49,690	4,462	3,603	1,139	37,947	7,964	64,284
NONCURRENT ASSETS:								
Restricted assets:								
Cash and cash equivalents in commercial banks	-	-	-	-	33	-	-	-
Cash and cash equivalents in governmental banks	-	-	-	-	411	-	3,988	-
Investments	1,140,223	-	-	-	1,312	-	-	-
Other restricted assets	12,706	-	-	-	-	-	-	-
Investments	-	-	-	-	-	500	-	46,768
Receivables:								
Loans, interest, and other	-	-	-	-	-	-	-	26,614
Other governmental agencies	-	6,368	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Due from:								
Primary government	-	12,700	-	-	-	-	-	-
Component units	-	34,878	-	-	-	-	-	-
Deferred outflows of resources	-	48,861	-	-	-	-	-	-
Deferred expenses and other assets	-	2,946	363	-	-	17	-	1,711
Property held for sale or future development	-	-	-	-	-	-	-	-
Capital assets, not being depreciated	-	523,777	83	-	-	23,432	-	14,152
Capital assets, depreciable — net	-	631,182	16,034	2	8,293	115,064	-	21,706
Total noncurrent assets	1,152,929	1,260,712	16,480	2	10,049	139,013	3,988	110,951
TOTAL ASSETS	$1,271,618	$1,310,402	$20,942	$3,605	$11,188	$176,960	$11,952	$175,235

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2011
(In thousands)

ASSETS	Puerto Rico Trade and Export Company	Right to Employment Administration	Special Communities Perpetual Trust	State Insurance Fund Corporation	University of Puerto Rico Comprehensive Cancer Center	Nonmajor Component Units Totals
CURRENT ASSETS:						
Cash and cash equivalents in commercial banks	$ 11,222	$ -	$ -	$ 317,683	$ 198	$ 474,137
Cash and cash equivalents in governmental banks	2,198	8,462	-	58,475	1,565	239,453
Investments	-	-	-	454,163	-	970,455
Restricted assets:						
Cash and cash equivalents in commercial banks	-	-	-	-	-	162,407
Cash and cash equivalents in governmental banks	-	-	156,558	-	-	225,907
Investments	-	-	-	-	-	128,690
Other restricted assets	-	-	122	-	-	30,578
Collateral from securities lending transactions	-	-	-	84,284	-	84,284
Receivables — net:						
Insurance premium	-	-	-	40,827	-	41,493
Intergovernmental	-	-	-	-	151	12,607
Accounts	-	-	-	-	-	183,804
Loans and advances	-	-	-	-	-	103,617
Accrued interest	5,354	-	-	7,633	-	23,114
Other governmental entities	954	43	517	17,958	847	73,352
Other	225	16	-	109,997	-	122,091
Due from:						
Primary government	-	3,093	-	-	2,000	66,744
Component units	-	-	-	11,172	-	60,498
Inventories	-	-	-	6,401	-	27,159
Prepaid expenses	228	-	-	301	70	18,024
Total current assets	20,181	11,614	157,197	1,108,894	4,831	3,048,414
NONCURRENT ASSETS:						
Restricted assets:						
Cash and cash equivalents in commercial banks	6,508	-	-	3,724	-	46,941
Cash and cash equivalents in governmental banks	1,191	-	-	-	-	27,291
Investments	344,287	-	-	310,876	-	2,053,521
Other restricted assets	-	-	-	-	-	57,224
Investments	-	-	-	364,627	-	1,453,866
Receivables:						
Loans, interest, and other	-	-	-	-	-	162,699
Other governmental entities	-	-	-	-	-	14,063
Other	-	-	-	-	-	7,354
Due from:						
Primary government	-	-	-	-	-	12,700
Component units	-	-	-	-	-	61,363
Deferred outflows of resources	-	-	-	-	-	48,861
Deferred expenses and other assets	-	-	-	-	-	94,452
Real estate held for sale or future development	-	-	-	-	-	201,806
Capital assets, not being depreciated	60,279	-	-	13,010	4,425	1,767,807
Capital assets, depreciable — net	58,647	205	-	85,470	24,471	2,345,556
Total noncurrent assets	470,912	205	-	777,707	28,896	8,355,504
TOTAL ASSETS	$491,093	$11,819	$157,197	$1,886,601	$33,727	$11,403,918

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2011
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Agricultural Enterprises Development Administration	Automobile Accidents Compensations Administration	Cardiovascular Center Corporation of Puerto Rico and the Caribbean	Company for the Integral Development of the Península de Cantera	Corporation for the "Caño Martín Peña" ENLACE Project	Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico
LIABILITIES:						
Current liabilities:						
Accounts payable and accrued liabilities	$ 61,319	$ 5,612	$ 29,767	$ 3,568	$ 162	$ 283
Deposits and escrow liabilities	-	-	-	-	-	-
Due to:						
Primary government	-	-	31,670	-	-	-
Component units	576	-	13,237	20,175	-	-
Other governmental entities	7,025	1,639	930	-	-	202
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-
Interest payable	-	-	-	-	-	-
Deferred revenue	-	39,478	-	-	-	-
Notes payable, current portion	5,480	-	-	-	-	-
Bonds payable, current portion	-	-	-	-	-	-
Accrued compensated absences, current portion	6,245	3,002	3,158	61	59	154
Termination benefits payable	19,958	-	-	-	-	-
Liability for automobile accident insurance and workmen compensation claims	-	166,596	-	-	-	-
Capital leases	-	-	-	-	-	-
Current portion of other long-term liabilities	-	-	87	-	-	-
Total current liabilities	100,603	216,327	78,849	23,804	221	639
Noncurrent liabilities:						
Due to:						
Primary government	-	-	-	-	-	-
Component units	114,423	-	-	-	-	-
Other governmental entities	-	-	-	-	-	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-
Deferred revenue						
Notes payable	-	-	-	-	-	-
Commonwealth appropriation bonds	-	-	-	-	-	-
Bonds payable	-	-	-	-	-	-
Accrued compensated absences	-	-	-	90	-	-
Termination benefits payable						
Liability for automobile accident insurance and workmen compensation claims	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-
Hedging derivative instruments — interest rate swaps	-	-	-	-	-	-
Other long-term liabilities	-	-	5,260	-	-	-
Total noncurrent liabilities	114,423	-	5,260	90	-	-
Total liabilities	215,026	216,327	84,109	23,894	221	639
NET ASSETS (DEFICIT):						
Invested in capital assets, net of related debt	-	7,588	17,486	145	4,129	-
Restricted for:						
Trust — nonexpendable	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Affordable housing and related loan insurance programs	-	-	-	-	-	-
Student loans and other educational purpose	-	-	922	-	-	-
Other specified purposes	-	-	(60,579)	497	35	15,119
Unrestricted	(105,434)	(54,666)	-	7,662	1,092	650
Total net assets (deficit)	(105,434)	(47,078)	(42,171)	8,304	5,256	15,769
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$ 109,592	$169,249	$ 41,938	$32,198	$5,477	$16,408

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2011
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Culebra Conservation and Development Authority	Economic Development Bank for Puerto Rico	Employment and Training Enterprises Corporation	Farm Insurance Corporation of Puerto Rico	Fine Arts Center Corporation	Governing Board of the 9-1-1- Service
LIABILITIES:						
Current liabilities:						
Accounts payable and accrued liabilities	$ 8	$ -	$ 2,890	$ 1,645	$ 278	$ 1,008
Deposits and escrow liabilities	-	454,620	4	-	337	-
Due to:						
Primary government	-	-	-	-	-	5,124
Component units	-	444	-	-	-	-
Other governmental entities	-	-	83	12	285	1,881
Securities lending transactions and reverse repurchase agreements	-	86,600	-	-	-	-
Interest payable	-	6,049	-	-	-	-
Deferred revenue	-	-	788	4,485	546	-
Notes payable, current portion	-	-	-	-	-	-
Bonds payable, current portion	-	-	-	-	-	-
Accrued compensated absences, current portion	14	-	88	653	206	403
Termination benefits payable	17	-	-	-	88	161
Liability for automobile accident insurance and workmen compensation claims	-	-	-	-	-	-
Capital leases	1	-	-	-	-	-
Current portion of other long-term liabilities	-	3,451	-	-	-	-
Total current liabilities	40	551,164	3,853	6,795	1,740	8,577
Noncurrent liabilities:						
Due to:						
Primary government	-	-	-	-	-	-
Component units	-	9,893	-	5,660	-	-
Other governmental entities	-	-	-	-	-	-
Securities lending transactions and reverse repurchase agreements	-	50,800	-	-	-	-
Deferred revenue	-	-	-	-	-	-
Notes payable	-	607,817	-	-	-	-
Commonwealth appropriation bonds	-	-	-	-	-	-
Bonds payable	-	-	-	-	-	-
Accrued compensated absences	48	2,059	-	-	455	704
Termination benefits payable	152	-	-	-	956	779
Liability for automobile accident insurance and workmen compensation claims	5	-	-	-	-	-
Capital leases	-	-	-	-	-	-
Hedging derivative instruments — interest rate swaps	-	-	-	-	-	-
Other long-term liabilities	-	10,122	-	-	-	-
Total noncurrent liabilities	205	680,691	-	5,660	1,411	1,483
Total liabilities	245	1,231,855	3,853	12,455	3,151	10,060
NET ASSETS (DEFICIT):						
Invested in capital assets, net of related debt	987	(935)	-	189	15,774	2,799
Restricted for:	-					
Trust — nonexpendable	-	-	-	-	-	-
Capital projects		-	-	-	-	9,270
Debt service	-	-	-	-	-	-
Affordable housing and related loan insurance programs	-	-	-	-	-	-
Student loans and other educational purpose	-	-	-	-	-	-
Other specified purposes	71	8,449	-	-	-	9,561
Unrestricted	(177)	139,664	(1,924)	10,589	6,138	20,703
Total net assets (deficit)	881	147,178	(1,924)	10,778	21,912	42,333
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$1,126	$1,379,033	$ 1,929	$23,233	$25,063	$52,393

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2011
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Institute of Puerto Rican Culture	Institutional Trust of the National Guard of Puerto Rico	Land Authority of Puerto Rico	Musical Arts Corporation	National Parks Company of Puerto Rico	Port of the Americas Authority	Public Corporation for the Supervision and Deposit Insurance of PR Cooperatives
LIABILITIES:							
Current liabilities:							
Accounts payable and accrued liabilities	$ 810	$ 902	$ 35,003	$ 584	$ 966	$ 8,280	$ 27,710
Deposits and escrow liabilities	-	-	11,020	-	-	-	-
Due to:							
Primary government	-	-	-	-	1,930	-	-
Component units	-	-	45,271	-	9,504	-	-
Other governmental entities	-	-	14,191	438	12,317	-	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-	-
Interest payable	-	-	-	-	343	10,276	-
Deferred revenue		-	91	614	-	-	-
Notes payable, current portion		-	-	-	-	-	-
Bonds payable, current portion	-	-	-	-	-	-	-
Accrued compensated absences, current portion	237	57	-	506	131	26	1,659
Termination benefits payable	234	-	-	347	-	-	783
Liability for automobile accident insurance and workmen compensation claims	-	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-	-
Current portion of other long-term liabilities	-	-	3,404	-	-	-	-
Total current liabilities	1,281	959	108,980	2,489	25,191	18,582	30,152
Noncurrent liabilities:							
Due to:							
Primary government	-	-	-	-	-	-	-
Component units	1,828	-	-	-	8,227	214,525	-
Other governmental entities	804	-	-	-	-	-	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-
Notes payable	-	-	-	-	-	-	-
Commonwealth appropriation bonds	-	-	76,715	-	-	-	-
Bonds payable	-	-	-	-	-	-	-
Accrued compensated absences	1,924	-	1,572	59	5,379	9	-
Termination benefits payable	2,198	-	-	-	10,930	-	-
Liability for automobile accident insurance and workmen compensation claims	-	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-	-
Hedging derivative instruments — interest rate swaps	-	-	-	-	-	-	-
Other long-term liabilities	-	-	-	5,041	2,621	-	-
Total noncurrent liabilities	6,754	-	78,287	5,100	27,157	214,534	-
Total liabilities	8,035	959	187,267	7,589	52,348	233,116	30,152
NET ASSETS (DEFICIT):							
Invested in capital assets, net of related debt	63,935	23,908	92,580	795	174,979	58,597	3,071
Restricted for:		-	-	-	-	-	-
Trust — nonexpendable	-	-	-	-	-	-	-
Capital projects	11,039	-	-	-	22,348		
Debt service	-	-	-	-	-		
Affordable housing and related loan insurance programs	-	-	-	-	-	-	-
Student loans and other educational purpose	-	500	-	-	-	-	-
Other specified purposes	8,430	4,562	119	409	-	-	72,831
Unrestricted	1,509	57,678	(100,897)	(4,804)	(41,668)	2,634	92,804
Total net assets (deficit)	84,913	86,648	(8,198)	(3,600)	155,659	61,231	168,706
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$92,948	$87,607	$ 179,069	$ 3,989	$208,007	$294,347	$198,858

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2011
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Puerto Rico Conservatory of Music Corporation	Puerto Rico Convention Center District Authority	Puerto Rico Council on Higher Education	Puerto Rico Industrial Development Company	Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental, Control Facilities Financing Authority	Puerto Rico Infrastructure Financing Authority	Puerto Rico Land Administration	Puerto Rico and Municipal Islands Maritime Transport Authority
LIABILITIES:								
Current liabilities:								
Accounts payable and accrued liabilities	$ 3,055	$ 6,716	$ 512	$ 29,500	$ 85	$ 110,173	$ 4,077	$ 13,339
Deposits and escrow liabilities	-	3,418	-	-	-	-	-	-
Due to:							-	-
Primary government	-	-	-	7,669	-		-	-
Component units	-	3,573	-	91,118	-		-	1,065
Other governmental entities	471	-	-	-	-	7,414	-	2,399
Securities lending transactions and reverse							-	-
repurchase agreements	-	-	-	-	-	-	-	-
Interest payable	9	10,649	-	3,762	4,006	41,779	-	-
Deferred revenue	1,166	4,597	-	-	-	-	2,466	7,223
Notes payable, current portion	-	-	-	6,569	-		-	-
Bonds payable, current portion	-	9,040	-	12,680	-	32,175	-	-
Accrued compensated absences, current portion	67	143	-	-	8	248	770	1,401
Termination benefits payable	184	-	70	577	-	385	120	134
Liability for automobile accident insurance and							-	-
workmen compensation claims	-	-	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-	-	-
Current portion of other long-term liabilities	-	-	-	121	-	-	-	-
Total current liabilities	4,952	38,136	582	151,996	4,099	192,174	7,433	25,561
Noncurrent liabilities:								
Due to:								
Primary government	-	-	-	-	-	-	-	-
Component units	1,472	147,600	-	-	59,314	10,321	-	38,688
Other governmental entities	9	-	-	-	-	-	-	-
Deposit and escrow liabilities	-	-	-	-		-	-	-
Securities lending transactions and reverse					-	-	-	-
repurchase agreements	-	-	-	-			-	-
Interest payable	-	-	-	-			-	-
Deferred revenue	-	4,563	-	-			5,750	-
Notes payable	-	-	-	92,727	-	-	-	-
Commonwealth appropriation bonds	-	-	-	-	-	4,956	-	-
Bonds payable	-	447,355	-	224,824	-	1,939,321	-	-
Accrued compensated absences	1,092	-	546	-	-	-	-	-
Termination benefits payable	-	-	526	8,622	-	-	463	1,925
Liability for automobile accident insurance and							-	-
workmen compensation claims	-	-	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-	-	-
Hedging derivative instruments — interest rate swaps	-	-	-	-	-	-	-	-
Other long-term liabilities	3,061	-	-	10,004	-	4,859	34,005	-
Total noncurrent liabilities	5,634	599,518	1,072	336,177	59,314	1,959,457	40,218	40,613
Total liabilities	10,586	637,654	1,654	488,173	63,413	2,151,631	47,651	66,174
NET ASSETS (DEFICIT):								
Invested in capital assets, net of related debt	49,491	83,848	258	376,029	-	125	10,091	49,588
Restricted for:	-	-					-	-
Trust — nonexpendable					-	165,269	-	-
Capital projects	22,310	25,137	-	-		-	-	-
Debt service	-	46,281	-	35,026	-	31,987	-	-
Affordable housing and related loan insurance programs	-	-	-	-	-	-	-	-
Student loans and other educational purpose	3,347	-	8,573	-	-	-	-	-
Other specified purposes	-	-	-	-	-	507	-	-
Unrestricted	(640)	41,911	709	(92,364)	(4,093)	(1,760,811)	190,652	(57,696)
Total net assets (deficit)	74,508	197,177	9,540	318,691	(4,093)	(1,562,923)	200,743	(8,108)
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$85,094	$834,831	$11,194	$806,864	$59,320	$ 588,708	$248,394	$ 58,066

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2011
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Puerto Rico Medical Services Administration	Puerto Rico Metropolitan Bus Authority	Puerto Rico Municipal Finance Agency	Puerto Rico Ports Authority	Puerto Rico Public Broadcasting Corporation	Puerto Rico Public Private Partnerships Authority	Puerto Rico School of Plastic Arts	Solid Waste Authority
LIABILITIES:								
Current liabilities:								
Accounts payable and accrued liabilities	$ 30,444	$ 20,893	$ 552	$ 88,265	$ 2,213	$ 5,109	$ 349	$ 4,663
Deposits and escrow liabilities	-	-	77,742	1,399	-	-	-	-
Due to:	-	-	-	-	-	-	-	-
Primary government	3,394	11,811	-	-	-	-	-	-
Component units	14,552	5,812	-	-	-	-	-	74,679
Other governmental entities	56,453	8,367	-	-	525	-	-	689
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-	-	-
Interest payable	-	-	23,397	134	-	-	-	-
Deferred revenue	-	2,238	-	141	-	-	-	4
Notes payable, current portion	-	38,833	-	261,572	-	-	-	-
Bonds payable, current portion	-	-	94,775	-	-	-	-	-
Accrued compensated absences, current portion	13,493	4,530	-	5,483	947	67	60	305
Termination benefits payable	-	564	-	1,317	206	-	55	4,391
Liability for automobile accident insurance and workmen compensation claims	-	-	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-	-	-
Current portion of other long-term liabilities	180	-	-	-	44	-	-	-
Total current liabilities	118,516	93,048	196,466	358,311	3,935	5,176	464	84,731
Noncurrent liabilities:								
Due to:								
Primary government	-	-	-	27,326	-	-	-	-
Component units	198,238	-	-	223,431	-	9,704	-	3,500
Other governmental entities	-	-	6,381	9,402	-	1	-	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-	-	-
Deferred revenue	-	-	-	1,881	-	-	-	-
Notes payable	-	-	-	293,411	-	-	-	-
Commonwealth appropriation bonds	-	-	-	-	-	-	-	10,689
Bonds payable	-	-	1,009,456	44,987	-	-	-	-
Accrued compensated absences	-	-	-	-	1,266	-	488	389
Termination benefits payable	-	3,825	-	17,338	1,930	-	400	-
Liability for automobile accident insurance and workmen compensation claims	-	-	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-	-	-
Hedging derivative instruments — interest rate swaps	-	-	-	48,861	-	-	-	-
Other long-term liabilities	6,995	-	-	5,448	-	-	-	-
Total noncurrent liabilities	205,233	3,825	1,015,837	672,085	3,196	9,705	888	14,578
Total liabilities	323,749	96,873	1,212,303	1,030,396	7,131	14,881	1,352	99,309
NET ASSETS (DEFICIT):								
Invested in capital assets, net of related debt	55,426	58,447	-	388,188	16,073	2	8,293	76,486
Restricted for:	-	-	-	-	-	-	-	-
Trust — nonexpendable	-	-	-	-	-	-	-	-
Capital projects	-	-	-	16,236	-	-	-	-
Debt service	-	-	131,610	253	-	-	-	-
Affordable housing and related loan insurance programs	-	-	-	-	-	-	-	-
Student loans and other educational purpose	-	-	-	-	-	-	1,313	-
Other specified purposes	2	-	-	3,027	1,550	-	-	177
Unrestricted	(237,892)	(69,961)	(72,295)	(127,698)	(3,812)	(11,278)	230	988
Total net assets (deficit)	(182,464)	(11,514)	59,315	280,006	13,811	(11,276)	9,836	77,651
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$ 141,285	$ 85,359	$1,271,618	$1,310,402	$20,942	$ 3,605	$11,188	$176,960

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2011
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Puerto Rico Telephone Authority	Puerto Rico Tourism Company	Puerto Rico Trade and Export Company	Right to Employment Administration	Special Communities Perpetual Trust	State Insurance Fund Corporation	University of Puerto Rico Comprehensive Cancer Center	Nonmajor Component Units Totals
LIABILITIES:								
Current liabilities:								
Accounts payable and accrued liabilities	$ 4	$ 38,996	$ 4,863	$ 9,277	$ 32,751	$ 166,535	$ 1,546	$ 754,712
Deposits and escrow liabilities	-	-	-	-	-	-	-	548,540
Due to:								
Primary government	-	10,473	-	-	-	-	-	72,071
Component units	-	20,995	-	-	-	4,273	-	305,274
Other governmental entities	-	49	1,455	1,763	-	-	663	119,251
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	84,284	-	170,884
Interest payable	-	-	4,989	-	-	-	-	105,393
Deferred revenue	-	-	-	-	-	25,709	-	89,546
Notes payable, current portion	-	-	423	-	-	3,992	-	316,869
Bonds payable, current portion	-	-	-	-	-	-	-	148,670
Accrued compensated absences, current portion	-	2,518	702	-	-	15,468	-	62,869
Termination benefits payable	-	-	290	105	-	-	-	29,986
Liability for automobile accident insurance and workmen compensation claims	-	-	-	-	-	196,708	-	363,304
Capital leases	-	-	-	-	-	-	-	1
Current portion of other long-term liabilities	-	1,536	23	-	-	564	-	9,410
Total current liabilities	4	74,567	12,745	11,145	32,751	497,533	2,209	3,096,780
Noncurrent liabilities:								
Due to:								
Primary government	-	-	-	-	-	-	-	27,326
Component units	-	-	-	-	367,902	-	18,317	1,433,043
Other governmental entities	-	-	-	-	-	-	-	16,597
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-	-	50,800
Deferred revenue	-	-	-	-	-	-	-	12,194
Notes payable	-	3,042	359,962	-	-	279,651	-	1,636,610
Commonwealth appropriation bonds	-	60,427	-	-	-	-	-	152,787
Bonds payable	-	-	-	-	-	-	-	3,665,943
Accrued compensated absences	-	1,038	1,220	1,083	-	27,330	-	46,751
Termination benefits payable	-	2,426	2,316	848	-	-	-	55,634
Liability for automobile accident insurance and workmen compensation claims	-	-	-	-	-	587,310	-	587,315
Capital leases	-	-	-	-	-	-	99	99
Hedging derivative instruments — interest rate swaps	-	-	-	-	-	-	-	48,861
Other long-term liabilities	7,026	532	5,872	-	-	116,384	-	217,230
Total noncurrent liabilities	7,026	67,465	369,370	1,931	367,902	1,010,675	18,416	7,951,190
Total liabilities	7,030	142,032	382,115	13,076	400,653	1,508,208	20,625	11,047,970
NET ASSETS (DEFICIT):								
Invested in capital assets, net of related debt	-	35,528	102,828	205	-	25,677	10,530	1,813,140
Restricted for:								
Trust — nonexpendable	-	-	-	-	-	-	-	165,269
Capital projects	-	-	-	-	-	-	29	106,369
Debt service	-	-	-	-	-	72,600	-	317,757
Affordable housing and related loan insurance programs	-	-	-	-	124,716	-	-	124,716
Student loans and other educational purpose	-	-	-	-	-	-	-	14,655
Other specified purposes	3,988	18,654	5,768	-	-	-	19	93,196
Unrestricted	934	(20,979)	382	(1,462)	(368,172)	280,116	2,524	(2,279,154)
Total net assets (deficit)	4,922	33,203	108,978	(1,257)	(243,456)	378,393	13,102	355,948
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$11,952	$175,235	$491,093	$11,819	$ 157,197	$1,886,601	$33,727	$11,403,918

See accompanying independent auditors' report.

(Concluded)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011
(In thousands)

		Program Revenues					General Revenues and Transfers								
	Expenses	Charges for Services	Operating Grants and Contributions	Earnings on Investments	Capital Grants and Contributions	Net Revenues (Expenses) and Changes in Net Assets (Deficit)	Payments from (to) Primary Government	Payments from (to) Other Component Units	Grants and Contributions Not Restricted to Specific Programs	Taxes	Interest and Investment Earnings	Other	Change in Net Assets (Deficit)	Net Assets (Deficit), Beginning of Year (as Restated)	Net Assets (Deficit), End of Year
Agricultural Enterprises Development Administration	$ 220,525	$ 92,730	$ -	$ -	$ -	$ (127,795)	$ 89,976	$ -	$ -	$ 6,924	$ -	$ -	$ (30,895)	$ (74,539)	$ (105,434)
Automobile Accidents Compensations Administration	85,086	84,069	-	-	-	(1,017)	-	-	-	-	21,510	-	20,493	(67,571)	(47,078)
Cardiovascular Center Corporation of Puerto Rico and the Caribbean	101,292	86,564	-	-	-	(14,728)	11,975	-	-	-	55	-	(2,698)	(39,473)	(42,171)
Company for the Integral Development of the "Peninsula de Cantera"	10,988	11,565	-	-	-	577	-	-	7	-	106	-	690	7,614	8,304
Corporation for the Caño Martin Peña Enlace Project	6,127	-	-	-	-	(6,127)	8,679	-	-	-	6	-	2,558	2,698	5,256
Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico	2,464	339	-	-	-	(2,125)	3,767	-	-	-	-	6	1,648	14,121	15,769
Culebra Conservation and Development Authority	786	222	-	-	-	(564)	303	-	-	-	-	-	(261)	1,142	881
Economic Development Bank for Puerto Rico	70,043	54,262	-	-	474	(15,307)	-	-	-	-	16,380	1,126	2,199	144,979	147,178
Employment and Training Enterprises Corporation	6,408	7,442	-	-	-	1,034	-	-	-	-	-	109	1,143	(3,067)	(1,924)
Farm Insurance Corporation of Puerto Rico	5,118	3,064	1,154	-	-	(900)	-	-	-	-	260	25	(615)	11,393	10,778
Fine Arts Center Corporation	9,351	2,133	-	-	-	(7,218)	5,115	-	-	-	148	-	(1,955)	23,867	21,912
Governing Board of the 911 Service	14,866	22,009	-	-	-	7,143	(9,693)	-	-	-	319	2	(2,229)	44,562	42,333
Institute of Puerto Rican Culture	23,088	-	1,566	-	1,902	(19,620)	15,864	-	-	-	-	539	(3,217)	88,130	84,913
Institutional Trust of the National Guard of Puerto Rico	6,665	4,233	-	-	-	(2,432)	(1,038)	-	-	-	1,808	-	(1,662)	88,310	86,648
Land Authority of Puerto Rico	25,291	18,559	-	-	-	(6,732)	16,035	-	-	-	39	269	9,611	(17,809)	(8,198)
Musical Arts Corporation	9,189	562	-	-	-	(8,627)	8,466	-	-	-	853	316	1,008	(4,608)	(3,600)
National Parks Company of Puerto Rico	67,597	9,819	-	-	732	(57,046)	25,982	-	-	-	283	1,370	(29,411)	185,070	155,659
Port of the Americas Authority	1,053	-	-	-	-	(1,053)	16,520	-	-	-	4	-	15,471	45,760	61,231
Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives	17,269	19,755	3,174	-	-	5,660	-	-	-	-	4,946	-	10,606	158,100	168,706
Puerto Rico Conservatory of Music Corporation	13,616	2,519	2,168	-	25	(8,904)	3,960	-	3,264	-	21	172	(1,487)	75,995	74,508
Puerto Rico Convention Center District Authority	79,718	27,365		-	-	(52,353)	17,822	88,899	-	-	166	6,434	60,968	136,209	197,177
Puerto Rico Council on Higher Education	29,956	514	1,706	-	-	(27,736)	27,738	-	-	-	37	85	124	9,416	9,540
Puerto Rico Industrial Development Company	139,791	67,768	-	-	-	(72,023)	966	-	-	-	3,594	10,872	(56,591)	375,282	318,691
Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority	3,971	430	-	-	-	(3,541)	-	-	-	-	1,614	-	(1,927)	(2,166)	(4,093)
Puerto Rico Infrastructure Financing Authority	692,652	-	-	19,347	-	(673,305)	182,974	-	-	-	7	-	(490,324)	(1,072,599)	(1,562,923)
Puerto Rico Land Administration	12,032	12,433	-	-	-	401	-	(53,303)	-	-	575	786	(51,541)	252,284	200,743
Puerto Rico and Municipal Islands Transport Authority	41,643	4,258	3,546	-	7,645	(26,194)	44,585	-	-	-	-	-	18,391	(26,499)	(8,108)
Puerto Rico Medical Services Administration	210,494	147,793	-	-	-	(62,701)	18,566	-	-	-	783	42,830	(522)	(181,942)	(182,464)
Puerto Rico Metropolitan Bus Authority	94,004	9,249	9,546	-	12,182	(63,027)	64,267	-	-	-	1	-	1,241	(12,755)	(11,514)
Puerto Rico Municipal Finance Agency	54,551	-	-	-	-	(54,551)	-	-	-	-	56,865	1	2,315	57,000	59,315
Puerto Rico Ports Authority	234,727	144,475	-	-	-	(90,252)	2,818	-	9,660	-	35	21,152	(56,587)	336,593	280,006
Puerto Rico Public Broadcasting Corporation	30,502	6,453	-	-	-	(24,049)	17,522	-	2,989	-	11	181	(3,346)	17,157	13,811
Puerto Rico Public Private Partnerships Authority	19,313	10,750	-	-	-	(8,563)	-	-	-	-	1	-	(8,562)	(2,714)	(11,276)
Puerto Rico School of Plastic Arts	6,599	679	3,080	-	-	(2,840)	1,824	-	-	-	187	-	(829)	10,665	9,836
Puerto Rico Telephone Authority	111	-	-	-	-	(111)	-	-	-	-	12	-	(99)	5,021	4,922
Puerto Rico Tourism Company	118,206	163,966	-	-	-	45,760	(16,364)	(106,810)	-	57,595	678	-	(19,141)	52,344	33,203
Puerto Rico Trade and Export Company	40,528	16,785	1,000	-	-	(22,743)	-	-	-	-	16,253	144	(6,346)	115,324	108,978
Right to Employment Administration	19,329	-	-	-	-	(19,329)	23,550	-	-	-	3	75	4,299	(5,556)	(1,257)
Solid Waste Authority	26,122	1,036	-	-	-	(25,086)	15,080	-	-	-	498	-	(9,508)	87,159	77,651
Special Communities Perpetual Trust	52,449	-	-	-	-	(52,449)	33,569	-	-	-	855	-	(18,025)	(225,431)	(243,456)
State Insurance Fund Corporation	666,950	600,160	-	-	-	(66,790)	(51,178)	-	-	-	129,768	(310)	11,490	366,903	378,393
University of Puerto Rico Comprehensive Cancer Center	7,244	12,776	-	-	-	5,532	7,567	-	-	-	3	-	13,102	-	13,102
Total nonmajor component units	$3,277,714	$1,646,736	$26,940	$19,347	$22,960	$(1,561,731)	$587,217	$ (71,214)	$15,920	$64,519	$258,684	$86,184	$(620,421)	$ 976,369	$ 355,948

See accompanying independent auditor's report.

STATISTICAL SECTION

STATISTICAL SECTION (UNAUDITED)

This part of the Commonwealth of Puerto Rico's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Commonwealth's overall financial health. The following are the categories of the various schedules that are included in this Section:

Contents Pages

These schedules contain trend information to help the reader understand how the Commonwealth's financial performance and well-being have changed over time.

This schedule contains information to help the reader assess the Commonwealth's most significant local revenue sources.

These schedules present information to help the reader assess the affordability of the Commonwealth's current levels of outstanding debt and the Commonwealth's ability to issue additional debt in the future.

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Commonwealth's financial activities take place.

This schedule contains service data to help the reader understand how the information in the Commonwealth's financial report relates to the services the government provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

SCHEDULES OF FINANCIAL TRENDS INFORMATION

COMMONWEALTH OF PUERTO RICO

CHANGES IN NET ASSETS (DEFICIT) (UNAUDITED)
LAST TEN FISCAL YEARS
ACCRUAL BASIS OF ACCOUNTING
(In thousands)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
EXPENSES:										
Governmental activities:										
General government	$ 2,880,614	$ 3,156,646	$ 2,460,391	$ 2,592,834	$ 2,847,596	$ 2,844,494	$ 1,827,816	$ 1,963,879	$ 2,324,715	$ 1,429,265
Public safety	2,205,782	2,228,000	2,247,480	2,161,265	1,983,782	2,217,294	2,580,951	1,950,635	1,606,272	1,883,061
Health	3,022,000	2,843,744	2,858,750	2,471,960	1,943,582	1,422,813	2,364,110	2,386,735	1,903,811	1,990,852
Public housing and welfare	3,937,901	3,726,041	3,560,871	3,194,945	3,157,877	3,287,559	3,443,886	2,919,315	3,239,366	2,803,742
Education	4,469,337	4,543,362	5,280,249	4,571,722	4,748,008	4,110,669	5,000,686	3,684,331	3,375,815	3,477,373
Economic development	517,921	292,037	779,449	471,640	554,271	564,447	1,006,945	896,925	451,945	632,083
Payment of obligations of component units	6,411	196,898	136,415	-	-	-	-	-	-	-
Intergovernmental	430,941	533,939	613,033	474,023	593,264	440,390	-	591,237	466,762	467,957
Interest and other	1,807,230	1,648,875	1,128,918	1,086,906	863,723	882,163	845,556	778,700	671,228	646,120
Total governmental activities	19,278,137	19,169,542	19,065,556	17,025,295	16,692,103	15,769,829	17,069,950	15,171,757	14,039,914	13,330,453
Business-type activities:										
Lotteries	697,746	720,992	723,287	699,005	679,274	670,425	699,407	731,344	695,888	603,768
Unemployment	635,145	820,261	467,788	269,924	192,484	207,483	197,967	142,652	343,243	331,754
Other	40,044	20,180	31,947	28,738	26,860	25,043	32,437	26,763	22,385	16,902
Total business-type activities	1,372,935	1,561,433	1,223,022	997,667	898,618	902,951	929,811	900,759	1,061,516	952,424
Total primary government expenses	20,651,072	20,730,975	20,288,578	18,022,962	17,590,721	16,672,780	17,999,761	16,072,516	15,101,430	14,282,877
PROGRAM REVENUES:										
Governmental activities:										
Charges for services	632,005	600,473	758,427	664,505	757,724	828,993	702,691	769,207	757,116	535,423
Operating grants and contributions	6,006,310	6,536,125	5,541,715	4,311,592	4,773,174	4,365,711	4,096,204	1,038,776	3,830,639	3,400,729
Earnings on investments	-	-	-	-	-	-	-	-	-	-
Capital grants and contributions	457,725	129,947	110,847	137,916	257,514	100,990	121,083	2,592,055	173,644	187,512
Total governmental activities	7,096,040	7,266,545	6,410,989	5,114,013	5,788,412	5,295,694	4,919,978	4,400,038	4,761,399	4,123,664
Business-type activities:										
Charges for services	1,192,724	1,218,613	1,206,080	1,161,084	1,140,539	1,149,426	1,187,009	1,136,705	1,132,285	1,021,070
Operating grants and contributions	450,689	544,393	245,770	77,803	43,480	59,613	22,315	59,728	97,033	26,509
Total business-type activities	1,643,413	1,763,006	1,451,850	1,238,887	1,184,019	1,209,039	1,209,324	1,196,433	1,229,318	1,047,579
NET (EXPENSE) REVENUE:										
Governmental activities	(12,182,097)	(11,902,997)	(12,654,567)	(11,911,282)	(10,903,691)	(10,474,135)	(12,149,972)	(10,771,719)	(9,278,515)	(9,206,789)
Business-type activities	270,478	201,573	228,828	241,220	285,401	306,088	279,513	295,674	167,802	95,155
TOTAL PRIMARY GOVERNMENT NET EXPENSE	$ (11,911,619)	$ (11,701,424)	$ (12,425,739)	$ (11,670,062)	$ (10,618,290)	$ (10,168,047)	$ (11,870,459)	$ (10,476,045)	$ (9,110,713)	$ (9,111,634)

(Continued)

COMMONWEALTH OF PUERTO RICO

CHANGES IN NET ASSETS (DEFICIT) (UNAUDITED)
LAST TEN FISCAL YEARS
ACCRUAL BASIS OF ACCOUNTING
(In thousands)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
GENERAL REVENUES:										
Governmental activities:										
Taxes:										
Income	$ 4,726,036	$ 4,857,035	$ 5,424,476	$ 5,493,881	$ 6,488,211	$ 6,255,391	$ 5,526,006	$ 5,191,080	$ 4,941,128	$ 4,446,570
Excise	2,106,784	1,145,538	1,118,283	1,318,866	1,475,311	2,013,998	2,101,216	1,924,610	1,894,729	1,713,098
Sales and use tax	1,129,006	1,087,053	1,089,073	910,609	583,639	-	-	-	-	-
Property taxes	233,703	227,812	-	-	-	-	-	-	-	-
Other	83,589	98,531	103,348	11,356	4,663	15,145	7,128	19,211	3,055	104,517
Revenue from global tobacco settlement agreement	71,097	75,584	90,073	82,608	69,604	66,796	106,521	70,420	101,849	37,153
Unrestricted investment earnings (losses)	71,144	(42,682)	114,699	160,926	176,674	117,080	116,686	60,585	85,565	90,940
Revenue from component units	84,610	76,758	386,182	74,389	311,732	68,745	474,069	175,729	111,752	228,118
Grants and contributions not restricted to specific programs	-	114,739	115,176	120,006	135,916	196,721	102,691	5,706	103,423	46,117
Payment from agency fund	-	-	-	-	-	-	-	-	-	129,000
Special items	-	-	175,102	3,749,348	-	(2,485)	-	(35,646)	(203,514)	123,785
Gain on sale of assets	-	-	-	-	-	19,588	-	-	-	-
Transfers	230,551	265,852	251,170	309,815	342,743	242,642	492,796	203,258	279,060	187,183
Other	163,184	166,517	96,696	299,631	71,187	203,525	322,185	384,719	214,381	472,642
Total governmental activities	8,899,704	8,072,737	8,964,278	12,531,435	9,659,680	9,197,146	9,249,298	7,999,672	7,531,428	7,579,123
Business-type activities:										
Unrestricted investment earnings	17,900	21,260	20,036	35,423	37,177	33,165	32,284	23,831	77,362	36,455
Revenue from component units	-	-	-	-	-	-	-	-	1,038	3,370
Grants and contributions not restricted to specific programs	-	-	-	-	-	-	-	-	-	44,320
Transfers	(230,551)	(265,852)	(251,170)	(309,815)	(342,743)	(242,642)	(492,796)	(203,258)	(279,060)	(187,183)
Total business-type activities	(212,651)	(244,592)	(231,134)	(274,392)	(305,566)	(209,477)	(460,512)	(179,427)	(200,660)	(103,038)
Total primary government	8,687,053	7,828,145	8,733,144	12,257,043	9,354,114	8,987,669	8,788,786	7,820,245	7,330,768	7,476,085
CHANGE IN NET ASSETS:										
Governmental activities	(3,282,393)	(3,830,260)	(3,690,289)	620,153	(1,244,011)	(1,276,989)	(2,900,674)	(2,772,047)	(1,747,087)	(1,627,666)
Business-type activities	57,827	(43,019)	(2,306)	(33,172)	(20,165)	96,611	(180,999)	116,247	(32,858)	(7,883)
TOTAL PRIMARY GOVERNMENT	$(3,224,566)	$(3,873,279)	$(3,692,595)	$ 586,981	$(1,264,176)	$(1,180,378)	$(3,081,673)	$(2,655,800)	$(1,779,945)	$(1,635,549)

(Concluded)

COMMONWEALTH OF PUERTO RICO

NET ASSETS (DEFICIT) BY COMPONENT (UNAUDITED)
LAST TEN FISCAL YEARS
ACCRUAL BASIS OF ACCOUNTING
(In thousands)

	2011	2010	2009	2008	2007	2006	2005	2004	2002	2003	2002
GOVERNMENTAL ACTIVITIES:											
Invested in capital assets — net of related debt	$ 3,691,871	$ 3,866,328	$ 3,888,495	$ 3,979,308	$ 3,635,271	$ 3,485,882	$ 3,774,098	$ 3,133,230	$ 1,909,137	$ 1,969,864	$ 1,909,137
Restricted	2,067,282	2,941,461	979,094	713,814	331,051	280,078	296,692	-	4,616	19,749	4,616
Unrestricted deficit	(40,267,354)	(38,031,328)	(32,053,838)	(22,385,747)	(22,405,216)	(20,975,523)	(19,987,579)	(16,789,576)	(12,085,385)	(13,942,397)	(12,085,385)
TOTAL GOVERNMENTAL ACTIVITIES NET DEFICIT	$ (34,508,201)	$ (31,223,539)	$ (27,186,249)	$ (17,692,625)	$ (18,438,894)	$ (17,209,563)	$ (15,916,789)	$ (13,656,346)	$ (10,171,632)	$ (11,952,784)	$ (10,171,632)
BUSINESS-TYPE ACTIVITIES:											
Invested in capital assets — net of related debt	$ 1,660	$ 1,586	$ 682	$ 674	$ 674	$ 1,008	$ 847	$ 1,672	$ 310	$ 1,895	$ 310
Restricted	840,241	505,906	29,209	33,803	910,479	947,507	872,215	853,194	769,804	736,947	769,804
Unrestricted net assets (deficit)	(11,675)	289,418	810,038	689,686	(153,818)	(171,015)	(202,212)	(3,037)	(1,675)	(3,260)	(1,675)
TOTAL BUSINESS-TYPE ACTIVITIES NET ASSETS	$ 830,226	$ 796,910	$ 839,929	$ 724,163	$ 757,335	$ 777,500	$ 670,850	$ 851,829	$ 768,439	$ 735,582	$ 768,439
PRIMARY GOVERNMENT:											
Invested in capital assets — net of related debt	$ 3,693,531	$ 3,867,914	$ 3,889,177	$ 3,979,982	$ 3,635,945	$ 3,486,890	$ 3,774,945	$ 3,134,902	$ 1,909,447	$ 1,971,759	$ 1,909,447
Restricted	2,907,523	3,447,367	1,008,303	747,617	1,241,530	1,227,585	1,168,907	853,194	774,420	756,696	774,420
Unrestricted deficit	(40,279,029)	(37,741,910)	(31,243,800)	(21,696,061)	(22,559,034)	(21,146,538)	(20,189,791)	(16,792,613)	(12,087,060)	(13,945,657)	(12,087,060)
TOTAL PRIMARY GOVERNMENT NET DEFICIT	$ (33,677,975)	$ (30,426,629)	$ (26,346,320)	$ (16,968,462)	$ (17,681,559)	$ (16,432,063)	$ (15,245,939)	$ (12,804,517)	$ (9,403,193)	$ (11,217,202)	$ (9,403,193)

COMMONWEALTH OF PUERTO RICO

CHANGES IN FUND BALANCES (DEFICIT) OF GOVERNMENTAL FUNDS (UNAUDITED)
ALL GOVERNMENTAL FUND TYPES
LAST TEN FISCAL YEARS
(In thousands)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
REVENUES:										
Taxes:										
Income	$ 4,749,942	$ 5,109,313	$ 5,191,042	$ 5,493,881	$ 6,389,973	$ 6,181,995	$ 5,564,673	$ 5,061,761	$ 4,874,795	$ 4,843,852
Excise	2,106,784	1,145,538	1,118,283	1,306,416	1,475,311	2,013,998	2,101,216	1,924,610	1,894,729	1,713,098
Sales and use tax	1,129,006	1,094,208	1,081,918	910,609	583,639	-	-	-	-	-
Property taxes	241,719	227,812	-	-	-	-	-	-	-	-
Other	83,589	98,530	103,348	11,356	4,663	15,145	7,128	19,211	3,055	1,963
Charges for services	632,005	600,473	758,427	664,505	757,724	828,993	702,691	750,978	780,905	535,423
Intergovernmental	6,126,212	6,655,543	5,767,738	4,569,457	5,166,604	4,663,422	4,319,977	3,654,766	4,107,706	3,634,358
Interest and investment earnings	28,529	56,145	114,699	160,926	176,674	117,080	116,686	58,914	85,565	90,940
Other	366,101	278,874	540,854	455,439	434,024	334,591	869,338	629,426	436,668	839,240
Total revenues all governmental fund types	15,463,887	15,266,436	14,676,309	13,572,589	14,988,612	14,155,224	13,681,709	12,099,666	12,183,423	11,658,874
EXPENDITURES:										
General government	1,284,878	1,830,482	1,512,909	1,769,498	2,537,999	2,489,093	1,675,428	1,777,365	1,774,156	1,279,750
Public safety	2,044,398	2,207,228	2,071,001	2,134,919	1,864,256	2,108,152	2,409,668	1,765,199	1,424,846	1,659,280
Health	2,932,836	2,785,439	2,762,476	2,345,650	1,948,201	1,429,888	2,344,522	2,176,741	1,908,717	1,983,727
Public housing and welfare	3,736,104	3,553,699	3,428,546	3,098,684	3,048,585	3,130,373	3,320,849	2,738,016	2,953,189	2,726,129
Education	4,453,332	4,584,792	5,053,505	4,432,880	4,400,321	4,101,980	4,177,664	3,474,013	3,297,248	3,343,002
Economic development	460,986	249,899	688,460	415,976	533,253	516,444	706,066	868,926	428,621	637,794
Intergovernmental	430,171	533,762	613,033	470,395	593,247	409,727	-	528,829	465,699	466,169
Capital outlays	452,482	293,298	352,582	429,238	512,824	502,348	665,630	581,788	1,184,976	507,634
Payments of obligations of component units	6,411	196,898	136,415	-	-	-	-	-	-	-
Debt service:										
Principal	1,845,785	2,009,870	482,742	2,163,704	904,604	446,281	391,554	526,572	330,346	2,062,059
Interest and other	1,601,987	1,369,445	1,094,142	1,037,136	814,723	822,234	733,931	737,502	1,158,749	614,347
Total expenditures all governmental fund types	19,249,370	19,614,812	18,195,811	18,298,080	17,158,013	15,956,520	16,425,312	15,174,951	14,926,547	15,279,891
OTHER FINANCING SOURCES (USES):										
Transfers in	5,704,579	6,296,416	9,974,368	1,305,040	1,165,075	1,423,240	1,745,992	1,034,090	1,664,278	966,935
Transfers out	(5,474,028)	(6,030,564)	(9,723,198)	(995,225)	(822,332)	(1,180,598)	(1,253,216)	(830,832)	(1,385,218)	(779,752)
Long-term debt issued	1,684,135	4,754,372	5,965,925	1,921,363	1,140,356	1,518,355	1,619,562	3,001,116	2,241,190	3,107,821
Discount on bonds issued	(20,253)	(64,011)	(63,715)	(4,060)	-	(323)	(6,078)	(23,061)	(36,204)	(16,075)
Capital leases	198	427	292	43,850	2,975	4,580	847	2,300	58,897	-
Refunding bonds issued	1,364,475	1,163,735	237,875	2,086,240	379,498	-	-	2,372,689	1,754,686	1,636,838
Sale of capital assets	4,081	2,431	158,940	-	-	-	-	-	-	-
Upfront fee on swap agreements			35,980	-	-	-	-	-	-	-
Proceeds from termination of swap agreements		12,231	-	-	-	-	-	-	-	-
Termination fee on swap agreements	(23,854)	(40,849)	(74,671)	-	-	-	-	-	-	-
Payment for refunding of bonds	(483,515)	(1,047,297)	(183,000)	-	-	-	-	-	-	-
Bond proceeds — premium		18,045	34,842	-	-	-	-	-	-	-
Special item: payment of debt by COFINA		-	-	3,749,348	-	-	-	-	-	-
Special item: escrow restructuring		-	175,102	-	-	-	-	-	-	-
Payment to refunded bond escrow agent		-	-	(4,507,828)	-	-	-	(2,316,910)	(1,754,686)	(1,665,811)
Other	-	-	-	106,107	-	54,135	-	-	-	327,785
Total other financing sources all governmental fund types	2,755,818	5,064,936	6,538,740	3,704,835	1,865,572	1,819,389	2,107,107	3,239,392	2,542,943	3,577,741
NET CHANGE IN FUND BALANCES (DEFICIT)	$ (1,029,665)	$ 716,560	$ 3,019,238	$ (1,020,656)	$ (303,829)	$ 18,093	$ (636,496)	$ 164,107	$ (200,181)	$ (43,276)

The annual special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation, collected by the Municipal Revenue Collection Center on the Commonwealth's behalf, is presented as intergovernmental revenue from 2002 henceforth but as property tax in prior years.

In 2002, the Commonwealth adopted GASB No. 34. This statement requires that component units be included as expenditure by function. In prior years, such payments were reported as operating transfers-out to component units.

COMMONWEALTH OF PUERTO RICO

FUND BALANCE (DEFICIT) OF GOVERNMENTAL FUNDS (UNAUDITED)
LAST TEN FISCAL YEARS
MODIFIED-ACCRUAL BASIS OF ACCOUNTING
(In thousands)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
GENERAL FUND:										
Nonspendable	$ 17,747	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Spendable:										
Restricted	551,699	-	-	-	-	-	-	-	-	-
Committed	629,591	-	-	-	-	-	-	-	-	-
Assigned	14,512	-	-	-	-	-	-	-	-	-
Unassigned	(1,464,609)	-	-	-	-	-	-	-	-	-
Reserved	-	1,252,903	1,247,211	723,634	993,320	770,628	810,314	1,102,232	262,758	366,588
Unreserved	-	(1,800,199)	(2,682,838)	(2,494,519)	(1,504,478)	(1,154,383)	(1,321,585)	(1,468,182)	(342,941)	(193,131)
Total General Fund	(251,060)	(547,296)	(1,435,627)	(1,770,885)	(511,158)	(383,755)	(511,271)	(365,950)	(80,183)	173,457
ALL OTHER GOVERNMENTAL FUNDS:										
Spendable:										
Restricted	1,515,583	-	-	-	-	-	-	-	-	-
Committed	308,763	-	-	-	-	-	-	-	-	-
Assigned	74,752	-	-	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-	-	-	-
Reserved	-	2,393,393	2,053,409	11,667	125,756	73,346	45,546	72,455	33,047	72,455
Unreserved reported in:										
Debt service funds	-	482,301	668,132	127,577	131,782	143,732	156,564	119,830	168,928	120,216
Special revenue funds	-	114,768	249,891	200,929	137,286	358,452	256,949	449,455	506,252	378,852
Capital project funds	-	233,679	424,480	520,576	223,443	219,163	437,923	744,577	228,215	356,201
Total all other governmental funds	1,899,098	3,224,141	3,395,912	860,749	618,267	794,693	896,982	1,386,317	936,442	927,724
TOTAL FUND BALANCE	$ 1,648,038	$ 2,676,845	$ 1,960,285	$ (910,136)	$ 107,109	$ 410,938	$ 385,711	$ 1,020,367	$ 856,259	$1,101,181

Note: In fiscal year 2011, the fund balance classifications were changed to conform to the requirements of GASB 54.

SCHEDULE OF REVENUE CAPACITY

COMMONWEALTH OF PUERTO RICO

GENERAL FUND NET REVENUES FOR THE LAST TEN FISCAL YEARS (UNAUDITED)
(In thousands)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Administrative measures	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 244,097
Excises on off-shore shipments										
rum	328,527	352,301	404,265	356,827	377,872	346,272	341,166	328,921	309,958	314,253
Custom duties	-	-	3,269	4,846	14,504	9,553	26,731	34,266	25,918	30,595
From noninternal revenues	328,527	352,301	407,534	361,673	392,376	355,825	367,897	363,187	335,876	588,945
Miscellaneous	343,062	314,754	284,436	466,742	330,064	331,803	430,534	379,501	314,857	238,116
Transfer from nonbudgeted funds	-	-	-	-	-	-	-	-	123,600	80,000
Electronic lottery	55,690	80,006	75,213	105,298	71,815	55,212	68,011	86,115	89,443	57,897
Traditional lottery	46,164	42,826	51,480	46,636	73,014	62,729	64,638	65,387	67,621	61,358
Nontax revenues	444,916	437,586	411,129	618,676	474,893	449,744	563,183	531,003	595,521	437,371
Alcoholic beverages and others	18,197	15,339	14,307	16,014	15,179	14,804	14,528	14,200	13,518	14,805
Entertainment machines	251	18,712	19,263	19,682	16,930	16,981	15,019	14,393	13,932	12,874
Motor vehicles	62,945	61,717	62,853	51,994	65,501	59,525	55,669	55,638	58,426	54,896
Licenses	81,393	95,768	96,423	87,690	97,610	91,310	85,216	84,231	85,876	82,575
Others	3,814	1,864	5,159	7,224	20,235	25,681	29,927	24,334	20,539	64,626
Hotel rooms	-	-	-	-	-	-	-	-	9,056	-
5% general excise tax	-	-	-	-	193,949	551,723	557,323	535,381	505,709	486,302
Crude oil and derived products	-	-	-	-	-	-	-	-	12,925	38,619
Slot machines	24,073	23,273	23,764	23,492	23,128	23,167	85,513	76,966	90,018	36,953
Cement	1,128	1,195	1,555	2,054	2,627	2,919	3,228	3,432	3,279	3,426
Insurance premiums	23,785	24,089	26,816	42,060	39,052	43,055	28,324	27,217	26,771	24,290
Horse races	20,983	22,862	25,245	26,783	29,321	30,786	31,463	28,865	28,872	22,033
Motor vehicle	364,188	350,764	310,920	366,341	396,667	533,957	606,662	551,181	499,252	418,024
Petroleum products	4,203	4,695	4,335	8,401	6,028	5,146	5,143	4,934	5,860	5,095
Foráneas (Ley 54)	677,829	-	-	-	-	-	-	-	-	-
Cigarettes	201,965	182,501	129,429	119,124	132,399	135,267	146,527	144,733	149,487	116,055
General taxes — total	1,321,968	611,243	527,223	595,479	843,406	1,351,701	1,494,110	1,397,043	1,351,768	1,215,423

(Continued)

COMMONWEALTH OF PUERTO RICO

GENERAL FUND NET REVENUES FOR THE LAST TEN FISCAL YEARS (UNAUDITED)
(In thousands)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Other beverages	$ 20,158	$ 19,081	$ 19,248	$ 19,026	$ 18,932	$ 18,745	$ 19,692	$ 17,428	$ 17,884	$ 18,234
Beer	209,568	211,785	203,386	198,879	207,813	219,379	221,902	217,568	223,309	179,737
Distilled spirits	51,237	53,930	54,767	50,189	52,283	54,056	56,641	61,306	58,389	51,734
Alcoholic beverages — total	280,963	284,796	277,401	268,094	279,028	292,180	298,235	296,302	299,582	249,705
Excise taxes — total	1,602,931	896,039	804,624	863,573	1,122,434	1,643,881	1,792,345	1,693,345	1,651,350	1,465,128
Sales and use tax	547,629	540,348	797,194	911,000	582,560	-	-	-	-	-
Inheritance and gift taxes	3,101	3,617	5,064	6,600	4,663	9,466	7,129	15,691	2,825	1,962
Taxes on dividends to 10%	26,756	29,774	48,663	59,770	138,859	66,721	80,398	70,192	49,790	62,548
Interest subject to 17%	6,985	9,902	11,738	13,657	12,112	11,536	10,489	10,108	11,278	14,310
Tollgate tax	12,607	15,034	19,372	21,610	25,083	27,396	22,973	31,579	45,321	59,515
Withholding to nonresidents	1,000,428	830,352	1,081,739	1,087,782	933,728	921,260	612,005	631,100	517,141	583,256
Partnerships	3,249	1,688	1,839	1,942	2,960	2,787	3,245	3,005	2,101	2,670
Corporations	1,674,087	1,682,321	1,375,596	1,565,534	2,002,718	1,872,458	1,870,937	1,831,027	1,776,985	1,706,137
Individuals	2,186,187	2,593,598	2,648,261	2,759,305	3,071,655	3,087,748	2,885,903	2,720,920	2,767,678	2,449,982
Income taxes — total	5,461,029	5,706,634	5,989,466	6,427,200	6,774,338	5,999,372	5,493,079	5,313,622	5,173,119	4,880,380
Property taxes	246,630	227,812	1,011	219	800	1,106	3,949	-	-	-
Tax revenues	7,391,983	6,926,253	6,891,524	7,378,682	7,995,182	7,735,669	7,374,589	7,091,198	6,910,345	6,428,083
From internal revenues	7,836,899	7,363,839	7,302,653	7,997,358	8,470,075	8,185,413	7,937,772	7,622,201	7,505,866	6,865,454
Total	$8,165,426	$7,716,140	$7,710,187	$8,359,031	$8,862,451	$8,541,238	$8,305,669	$7,985,388	$7,841,742	$7,454,399

Note: The net revenues presented above include the actual revenues and the operating transfers-in from other funds presented in the statement of revenues and expenditures — budget and actual — budget basis.

Source: Puerto Rico Treasury Department.

(Concluded)

SCHEDULES OF DEBT CAPACITY INFORMATION

COMMONWEALTH OF PUERTO RICO

LEGAL DEBT MARGIN INFORMATION (UNAUDITED)
LAST TEN FISCAL YEARS
(In thousands)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Internal revenue average for two years	$ 7,592,395	$ 7,333,246	$ 7,650,006	$ 8,233,717	$ 8,327,744	$ 8,061,593	$ 7,779,987	$ 7,564,034	$ 7,185,660	$ 6,748,772
Legal debt limit — 15% of internal revenue average for two years	1,138,859	1,099,987	1,147,501	1,235,058	1,249,162	1,209,239	1,166,998	1,134,605	1,077,849	1,012,316
Maximum debt service requirement	876,205	826,812	785,298	785,298	719,927	680,742	630,685	598,547	599,611	521,035
Additional legal debt service requirement margin	262,654	273,175	362,203	449,760	529,235	528,497	536,313	536,058	478,238	491,281
Total maximum debt service requirement as a percentage of internal revenue average for two years	11.54 %	11.27 %	10.27 %	9.54 %	8.64 %	8.44 %	8.11 %	7.91 %	8.34 %	7.72 %

Legal debt margin calculation for fiscal year 2011:	
Internal revenue for the year ended June 30, 2010	$ 7,363,839
Internal revenue for the year ended June 30, 2011	7,820,950
Total internal revenue for the years ended June 30, 2010 and 2011	15,184,789
Internal revenue average for the two years	7,592,395
Legal debt limit — 15% of internal revenue average for the two years	1,138,859
Maximum debt service requirement	876,205
Additional legal debt service requirement as a percentage of internal revenue average for two years	$ 262,654

Sources: Government Development Bank for Puerto Rico, General obligation debt service may not exceed 15% of the average of the internal revenues for the last two fiscal years.

COMMONWEALTH OF PUERTO RICO

RATIO OF ANNUAL DEBT SERVICE FOR GENERAL BONDED DEBT TO TOTAL GENERAL EXPENDITURES (UNAUDITED) LAST TEN FISCAL YEARS (In thousands)

	Total Debt Service	Total Governmental Expenditures	Ratio
Fiscal year:			
2011	$ 1,555,902	$ 19,249,370	8.1 %
2010	936,971	19,614,812	4.8
2009	413,967	18,195,811	2.3
2008	671,917	18,298,080	3.7
2007	606,800	17,158,013	3.5
2006	565,137	15,849,707	3.6
2005	491,394	16,425,312	3.0
2004	459,336	15,174,951	3.0
2003	362,136	14,926,547	2.4
2002	608,674	15,279,891	4.0

SCHEDULES OF DEMOGRAPHIC AND ECONOMIC INFORMATION

COMMONWEALTH OF PUERTO RICO

DEMOGRAPHIC AND ECONOMIC STATISTICS (UNAUDITED)
LAST TEN FISCAL YEARS

	Population *		Per Capita Income		Median Age	Life Expectancy (Years) (1)	School Enrollment	Labor Force (in thousands)	Unemployment Rate (%)	Gross Product (Current Prices $)**		Real Gross Product (2000 Prices $)**	
Fiscal year:													
2011	3,714	(r)	16,241		37.0	77.7	620,622	1,281	15.9	64,106	(r)	39,508	
2010	3,731	(r)	15,203	(p)	36.3	77.7	671,154	1,313	16.0	63,058	(r)	39,907	(p)
2009	3,751	(r)	14,786		36.3	77.7	649,692	1,349	13.4	62,598	(r)	41,464	
2008	3,772	(r)	14,217		37.5	77.7	685,348	1,368	11.0	61,665	(r)	43,205	
2007	3,794	(r)	13,244		37.0	77.7	710,861	1,409	10.4	59,521	(r)	44,475	
2006	3,813	(r)	12,970		36.5	77.7	731,644	1,422	11.7	56,732	(r)	45,009	
2005	3,824	(r)	12,507		36.0	77.7	714,306	1,385	10.6	53,752	(r)	44,785	
2004	3,826	(r)	11,724		35.6	77.2	764,861	1,360	11.4	5,709	(r)	43,950	
2003	3,825	(r)	11,429		35.1	77.5	746,500	1,352	12.1	47,479	(r)	42,795	
2002	3,821	(r)	10,921		34.7	77.1	808,408	1,309	12.1	45,071	(r)	41,915	

Source: Puerto Rico Planning Board, Department of Education, Department of Labor and Human Resources, and General Council of Education of the Commonwealth of Puerto Rico. The enrollment in private schools is an estimate.

- * Population as of July 1 (in thousands).
- ** Amounts expressed in millions.
- (1) Based on most recent study of 2006.
- (p) Preliminary figures.
- (r) Revised figures.

COMMONWEALTH OF PUERTO RICO

AVERAGE EMPLOYMENT BY SECTOR (UNAUDITED)
LAST TEN FISCAL YEARS
(In thousands)

Sector	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Agriculture	17	17	19	15	16	22	26	25	24	23
Manufacturing	99	102	112	129	135	136	138	136	134	137
Mining	a/	a/	1	1	1	a/	1	a/	a/	a/
Construction	47	54	68	82	94	88	87	88	82	84
Trade	241	240	244	257	260	271	261	253	252	236
Finance, insurance, and real estate	41	41	43	43	45	46	43	41	42	42
Transportation, communications, and public utilities	48	57	57	54	53	58	59	55	57	62
Services	344	330	353	359	364	355	349	340	328	311
Government (1)	240	261	271	279	296	280	274	268	269	257
Total	1,077	1,102	1,168	1,219	1,264	1,256	1,238	1,206	1,188	1,152

a/ Less than 1,000.
(1) Includes the Commonwealth, its municipalities, and federal government, and excludes public corporations.
Sources: Puerto Rico Department of Labor and Human Resources, Household Survey, and Puerto Rico Planning Board.

COMMONWEALTH OF PUERTO RICO

TOURISM INDICATORS (UNAUDITED)
LAST TEN FISCAL YEARS

	2011	2010 (p)	2009	2008	2007	2006	2005	2004	2003	2002
All hotels and hostelry registration	2,120,681	2,029,208	1,936,662	1,196,890	2,044,097	2,160,455	2,097,606	2,008,730	1,964,963	1,821,274
Occupancy rates	66.1 %	62.2 %	63.4 %	67.6 %	68.7 %	67.9 %	67.7 %	68.9 %	64.9 %	67.8 %
Number of rooms	14,388	14,076	13,430	13,269	13,402	13,424	13,321	12,751	12,850	11,759
Visitors' expenditures*	$ 3,713	$ 3,598	$ 3,473	$ 3,535	$ 3,414	$ 3,369	$ 3,239	$ 3,024	$ 2,677	$ 2,486

* Amounts expressed in millions of dollars.
(p) Preliminary figures.

Sources: Puerto Rico Tourism Company and Puerto Rico Planning Board.

SCHEDULE OF OPERATING INFORMATION

COMMONWEALTH OF PUERTO RICO

OPERATING INDICATORS BY FUNCTION (UNAUDITED)
LAST TEN FISCAL YEARS

Function	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Fire protection:										
Number of stations	94	95	95	95	94	94	94	98	93	93
Fire personnel and officers	1,713	1,889	2,225	2,232	2,232	2,233	2,233	1,851	1,894	1,867
Calls answered	11,013	14,021	9,698	10,146	10,441	10,435	11,514	10,716	12,340	13,256
Building inspections conducted	76,407	76,246	83,626	71,006	73,478	73,360	71,610	56,093	53,750	41,415
Police protection:										
Number of stations	192	210	193	233	238	238	234	231	228	235
Police personnel and officers	18,333	18,274	18,834	19,422	19,069	20,552	20,806	21,185	21,079	20,468
Calls answered	7,050	7,271	7,451	7,258	7,101	7,146	7,178	6,907	5,538	4,673
Water system:										
Customers	1,290,800	1,279,757	1,265,798	1,257,336	1,290,497	1,285,732	1,251,699	1,256,981	1,238,461	1,209,834
Personnel	4,919	5,001	5,617	5,839	5,830	5,544	5,459	5,442	5,580	5,633
Water consumption (millions of cubic meters)	317	325	331	327	350	365	356	359	350	349
Electric distribution system:										
Customers	1,475,126	1,469,493	1,458,636	1,449,221	1,452,529	1,450,227	1,438,699	1,419,602	1,401,301	1,383,888
Personnel	8,659	8,804	9,332	9,429	9,444	9,541	9,712	9,635	9,646	9,652
Electricity consumption (millions of kilowatt)	18,501	19,235	18,516	19,602	20,672	20,620	20,507	20,260	19,887	19,130
Electricity production (millions of kilowatt)	22,631	23,580	22,651	23,935	25,082	24,870	24,500	24,100	23,717	22,514
Education:										
Enrollment in public schools (1):										
Kindergarten to sixth grade	246,770	264,049	262,234	276,291	293,781	306,073	323,270	321,653	326,606	334,929
Seventh to ninth grade	114,658	124,343	122,506	128,641	133,171	135,166	137,717	142,305	146,896	146,837
Tenth to twelfth grade	97,203	104,731	103,255	108,028	117,205	122,251	118,491	116,829	118,519	117,072
Teachers actively teaching (in public school)	39,863	46,472	45,268	45,064	45,124	46,064	46,858	47,286	46,772	46,591
Enrollment in private schools:										
Kindergarten to sixth grade	99,975	11,614	97,004	105,724	103,442	107,358	83,548	117,622	98,719	135,655
Seventh to ninth grade	31,542	32,144	33,510	35,437	33,294	32,850	27,612	37,226	31,245	41,273
Tenth to twelfth grade	30,474	29,773	31,183	31,227	29,968	27,946	23,668	29,226	24,515	32,642
Enrollment in universities and colleges:										
Public	67,291	71,569	69,475	68,132	66,990	68,813	71,044	74,056	74,801	73,974
Private	182,901	177,803	166,143	157,306	158,412	140,734	136,650	132,735	125,041	117,578

Source: Various agencies and component units of the Commonwealth of Puerto Rico. The enrollment in private schools is an estimate.
(1) The enrollment in public schools for 2007–2008 don't include the special education by grade.

Commonwealth of Puerto Rico

Comprehensive Annual Financial Report
Year Ended June 30, 2012

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2012

Commonwealth of Puerto Rico

Honorable Alejandro García Padilla
Governor

Prepared by:

Puerto Rico Department of the Treasury

Melba Acosta Febo, CPA, Esq.
Secretary of the Treasury

Karolee García Figueroa, CPA, Esq.
Under Secretary of the Treasury

This document is available on the Puerto Rico Department of the Treasury homepage
On the World Wide Web: http://www.hacienda.gobierno.pr

COMMONWEALTH OF PUERTO RICO

TABLE OF CONTENTS

INTRODUCTORY SECTION

Commonwealth of Puerto Rico
DEPARTMENT OF THE TREASURY
San Juan, Puerto Rico

Melba I. Acosta Febo, Esq.
Secretary of the Treasury

September 16, 2013

To the People of the Commonwealth of Puerto Rico,
Gov. Alejandro García Padilla and
Members of the Legislature:

The Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Puerto Rico (the "Commonwealth") for the fiscal year ended June 30, 2012 is submitted herewith in accordance with our responsibilities of reporting the Commonwealth's financial activities. To the best of my knowledge, the information presented provides a reasonable understanding of the state's financial activities. This report reflects my commitment to you, the citizens of the Commonwealth, to our Governor, to our elected officials and to the financial community to maintain and disclose our financial statements in a manner which fully conforms with accounting principles generally accepted in the United States of America (USGAAP) as established by the Governmental Accounting Standards Board (GASB).

The report is comprised of three main sections. The Introductory Section includes this letter of transmittal, general information about the Commonwealth, a list of the Commonwealth's principal elected and appointed officials, as well as an organizational chart. The Financial Section consists of the independent auditors' report, management's discussion and analysis (MD&A), the audited basic financial statements as listed in the table of contents with the notes thereto and the required supplementary information. The Statistical Section set forth contains selected unaudited financial and demographic information for the Commonwealth on a multiyear basis.

PROFILE OF THE COMMONWEALTH

As the governmental entity responsible for the preparation of this report, the Puerto Rico Department of the Treasury relies on information provided by the Commonwealth's financial and accounting management, in charge of ensuring that assets are safeguarded and financial transactions are properly recorded and adequately documented. The responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Commonwealth's management. To the best of our knowledge and belief, the information presented is accurate in all material respects and is presented in conformity with US GAAP. The presentation is designed to set forth the financial position and the results of operations of the governmental activities, the business-type activities, the aggregate discretely presented component units, the major funds, as well as the aggregate remaining funds of the Commonwealth as of June 30, 2012 with the respective changes in financial position and cash flows thereof, where applicable, and the respective budgetary comparison for the General Fund for the year then ended. We have included all the necessary disclosures to enable the reader to gain a thorough understanding of the Commonwealth's activities.

The financial reporting entity consists of the primary government as defined below, other organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and it is able to either impose its will on that organization or if the organization can potentially provide specific financial benefits to or impose specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it. Certain component units, despite being legally separate from the primary government, are blended with the primary government. Blended component units provide services exclusively to the Commonwealth and, thus, are reported as if they were part of the primary government. The Commonwealth has four blended component units.

Discretely presented component units are legally separate from the primary government and are reported as such because the Commonwealth appoints a majority of their governing bodies and either is able to impose its will on them or the existence of a financial benefit/burden situation is verifiable. Both major and non-major discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are not part of the primary government and to differentiate their financial position and results of operations from those of the primary government. The Commonwealth has 49 discretely presented component units of which six are considered major component units and 43 non-major component units.

In addition, the Commonwealth has three (3) fiduciary component units which have been omitted from the government-wide financial statements, as their resources are not available to fund the operations of the Commonwealth.

Generally, each component unit issues audited financial statements, which can be obtained from the component unit's administrative offices. The basic financial statements included in the financial section of this CAFR provide descriptions of the operations of each of the following component units of the Commonwealth:

BLENDED COMPONENT UNITS:

1. Public Buildings Authority
2. Puerto Rico Maritime Shipping Authority
3. Puerto Rico Sales Tax Financing Corporation
4. The Children's Trust

DISCRETELY PRESENTED COMPONENT UNITS:

Major Component Units:

1. Government Development Bank for Puerto Rico
2. Puerto Rico Highways and Transportation Authority
3. Puerto Rico Electric Power Authority

4. Puerto Rico Aqueduct and Sewer Authority
5. University of Puerto Rico
6. Puerto Rico Health Insurance Administration

Non-major Component Units:

1. Agricultural Enterprises Development Administration
2. Automobile Accidents Compensations Administration
3. Cardiovascular Center Corporation of Puerto Rico and the Caribbean
4. Company for the Integral Development of the Península de Cantera
5. Corporation for the Caño Martín Peña ENLACE Project
6. Corporation for the Development of the Art, Science and Film Industry of Puerto Rico
7. Culebra Conservation and Development Authority
8. Economic Development Bank for Puerto Rico
9. Employment and Training Enterprises Corporation
10. Farm Insurance Corporation of Puerto Rico
11. Fine Arts Center Corporation
12. Governing Board of the 9-1-1 Service
13. Institute of Puerto Rican Culture
14. Institutional Trust of the National Guard of Puerto Rico
15. Land Authority of Puerto Rico
16. Local Redevelopment Authority Roosevelt Roads Puerto Rico
17. Musical Arts Corporation
18. National Parks Company of Puerto Rico
19. Port of the Americas Authority
20. Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives
21. Puerto Rico Conservatory of Music Corporation
22. Puerto Rico Convention Center District Authority

23. Puerto Rico Council on Education
24. Puerto Rico Government Investment Trust Fund
25. Puerto Rico Industrial Development Company
26. Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority
27. Puerto Rico Infrastructure Financing Authority
28. Puerto Rico Land Administration
29. Puerto Rico and Municipal Islands Maritime Transport Authority
30. Puerto Rico Medical Services Administration
31. Puerto Rico Metropolitan Bus Authority
32. Puerto Rico Municipal Finance Agency
33. Puerto Rico Ports Authority
34. Puerto Rico Public Broadcasting Corporation
35. Puerto Rico Public Private Partnerships Authority
36. Puerto Rico School of Plastic Arts
37. Puerto Rico Telephone Authority
38. Puerto Rico Tourism Company
39. Puerto Rico Trade and Export Company
40. Special Communities Perpetual Trust
41. Solid Waste Authority
42. State Insurance Fund Corporation
43. University of Puerto Rico Comprehensive Cancer Center

FIDUCIARY COMPONENT UNITS:

1. Employees' Retirement System of the Government of the Commonwealth of Puerto Rico
2. Puerto Rico Judiciary Retirement System
3. Puerto Rico System of Annuities and Pensions for Teachers

INDEPENDENT AUDITORS

Commonwealth statutes require an annual audit by independent certified public accountants. The firm of Deloitte & Touche LLP was selected by the Commonwealth to perform the audit of the basic financial statements in accordance with auditing standards generally accepted in the United States of America for the fiscal year 2012. The goal of an independent audit is to provide reasonable assurance that the financial statements of the Commonwealth for the fiscal year ended June 30, 2012 are fairly stated in all material respects in accordance with U.S. generally accepted accounting principles. The independent auditors' report on the basic financial statements is included in the financial section of this report.

INTERNAL CONTROLS

The management of the Commonwealth is responsible for the establishment and maintenance of internal controls that ensure that assets of the Commonwealth are protected from loss, theft, or misuse, and that adequate accounting data is compiled for the preparation of financial statements in conformity with U.S. generally accepted accounting principles. The internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (i) the cost of a control should not exceed the benefits likely to be derived; and (ii) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal assistance, the Commonwealth is also responsible for ensuring that internal controls are in place to ensure that documents and processes are in compliance with applicable laws and regulations related to such federal financial assistance programs.

Certain departments, agencies and political subdivisions are subject to the requirements of the U.S. Office of Management and Budget Circular A-133. As a result, these entities are audited for compliance with the requirements of the federal financial assistance programs. These audits are performed at the department or agency level. The Commonwealth has provided for the possible cost disallowance that may arise from these audits, as well as from other audits that may be performed by federal grantors.

BUDGET AND FISCAL POLICY

The fiscal year is the accounting period for the Commonwealth which begins on July 1 and ends in June 30. In each regular legislative session the Governor is constitutionally required to submit to the Legislature the proposed expenditures for the ensuing fiscal year with the information necessary for the formulation of a program of legislation. It is specifically established in Section 7 of Article VI of the Constitution that *"[t]he appropriations made for any fiscal year shall not exceed the total revenue, including available surplus, estimated for the said fiscal year unless the imposition of taxes sufficient to cover the said appropriations is provided by law"*.

The primary responsibility for the formulation of the budget rests in the Puerto Rico Office of Management and Budget (OMB), in collaboration with the Puerto Rico Planning Board, the Puerto Rico Department of the Treasury and other government offices and agencies. In addition to the internal controls previously discussed, the Commonwealth maintains extensive budgetary controls. These controls are meant to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Legislature. While the expenses of the General Fund are specified in the approved budget, budgetary control resides at the department level. The Commonwealth also maintains an encumbrance accounting system as one method of maintaining budgetary control.

The annual budget is developed using elements of program budgeting, with the detailed costs of every activity or program that is to be carried out in the following fiscal year in view of the Governor's recommendations as to appropriations that in his judgment are necessary, convenient and in conformity with the four-year investment plan prepared by the Puerto Rico Planning Board. It also includes an

estimate of revenue and other resources for the ensuing fiscal year under laws existing at the time the budget is submitted and considering legislative measures proposed by the Governor and submitted with the future budget.

In accordance with constitutional provisions, the Legislature may amend the budget submitted by the Governor, but may not increase items that would cause a deficit without imposing additional taxes. Once approved by the Legislature, the budget is referred to the Governor, who may decrease or eliminate any item, but may not increase or insert new items in the budget. The Governor may also veto the budget in its entirety and send it back to the Legislature with his objections. The Legislature, by a two-thirds majority in each chamber, may override the Governor's veto. According to Section 6 of Article VI: "*[i]f at the end of any fiscal year the appropriations necessary for the ordinary operating expenses of the Government and for the payment of interest on and amortization of the public debt for the ensuing fiscal year shall not have been made, the several sums appropriated in the last appropriation acts for the objects and purposes therein specified, so far as the same may be applicable, shall continue in effect item by item, and the Governor shall authorize the payments necessary for such purposes until corresponding appropriations are made*". As a result, the Commonwealth can continue to pay operating and other expenses until a new budget is approved.

GOVERNMENTAL ACTIVITIES

General governmental activities of the Commonwealth are accounted for in five major governmental funds. These funds are: general, pledged sales and use tax, debt service, COFINA special revenue, and COFINA debt service. Non-major governmental funds are combined in a single column in the governmental fund financial statements, and individually identified in the supplementary combining non-major governmental funds' financial statements of this report.

BUSINESS-TYPE ACTIVITIES

Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the government is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where the government has decided that periodic determination of net income is appropriate for accountability purposes.

The Commonwealth's major proprietary operations comprise both the Unemployment Insurance Fund and the Lotteries Fund (which includes the Lottery of Puerto Rico and the Additional Lottery System). The Disability Insurance Fund, the Drivers' Insurance Fund, the Puerto Rico Water Pollution Control Revolving Fund and the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund are all non-major proprietary funds combined in a single column in the proprietary fund financial statements, and individually identified in the supplementary combining non-major proprietary funds' financial statements of this report.

FIDUCIARY OPERATIONS

Fiduciary funds are used to account for assets held by the Commonwealth in a trustee capacity or as an agent for individuals, private organizations, and other governmental units. These include the pension and agency funds. Pension trust funds are established through trust agreements specifying how the fund will operate. Agency funds are custodial in nature and do not report fund balances.

The pension funds include the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico and its Instrumentalities, the Puerto Rico Judiciary Retirement System, and the Puerto Rico System of Annuities and Pensions for Teachers.

Agency funds consist of the Special Deposits Fund. This agency fund includes deposits under the custody of the Courts of Justice, Minors Support Administration for child support payments, deposits under the custody of the Commissioner of Insurance of the Commonwealth for escheated property, for insurance companies under liquidation and an allocated share of the sales and use tax corresponding to the municipalities.

CASH MANAGEMENT POLICIES AND PRACTICES

The Commonwealth maintains a cash pool for its cash and cash equivalents. The balance in the pooled cash accounts is available to meet current operating requirements and any excess is invested in various interest-bearing accounts in the Government Development Bank for Puerto Rico, a discretely presented component unit. In addition, the Puerto Rico Government Investment Trust Fund (PRGITF) was created by the Commonwealth pursuant to Act No. 176 of August 11, 1995, as a no-load diversified collective investment trust for the purpose of providing eligible governmental investors of Puerto Rico with a convenient and economical way to invest in a professionally managed money market portfolio. The deposits on hand and the investments purchased are not collateralized, secured, or guaranteed by the Commonwealth or any of its agencies, instrumentalities, or political subdivisions.

The Commonwealth's investment policy is to minimize credit and market risk while maintaining a competitive yield on its portfolio. The cash temporarily idle during this year was invested mainly in U.S. government securities, stocks, corporate bonds, repurchase agreements, Commonwealth securities, other trading securities and short-term investments. These are primary government investments that are restricted and unrestricted.

CAPITAL ASSETS

These basic financial statements include the capital assets of the Commonwealth. A discussion of capital assets accounting is included in the MD&A as part of the basic financial statements. More detailed information about capital assets can be found in the notes to the basic financial statements.

DEBT ADMINISTRATION

The Commonwealth's general obligation and appropriation debt is currently rated "Baa3" with a negative outlook by Moody's, "BBB-" with a negative outlook by Fitch, and "BBB-" with a negative outlook by S&P.

Section 2 of Article VI of the Constitution of the Commonwealth provides that direct obligations of the Commonwealth evidenced by bonds or notes which are backed by the full faith, credit and taxing power of the Commonwealth shall not be issued if the amount of the principal and interest on such bonds and notes and on all such bonds and notes issued thereafter, which are payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year of such proposed issuance on account of bonds or notes guaranteed by the Commonwealth, exceed 15% of the average annual revenues raised under the provisions of the Commonwealth Legislation and deposited into the Treasury of Puerto Rico in the two fiscal years preceding the fiscal year of such proposed issuance. Section 2 of Article VI of the Constitution does not limit the amount of debt that the Commonwealth may guarantee so long as the 15% limitation is not exceeded through payments by the Commonwealth on such guaranteed debt. As of June 30, 2012, the Commonwealth is in compliance with the debt limitation requirement. Please refer to the computation of the legal debt margin in the statistical section of this report. More detailed information about the long-term debt can be found in the notes to the basic financial statements.

RISK FINANCING

The Commonwealth purchases commercial insurance to cover casualty, theft, tort claims, and other losses. The current insurance policies have not been canceled or terminated. As it relates to workers' compensation, the Commonwealth's discretely presented component unit, the State Insurance Fund Corporation, provides workers' compensation to both public and private employees.

FINANCIAL ADVISOR AND FISCAL AGENT

The principal functions of the Government Development Bank for Puerto Rico are to act as financial advisor to and fiscal agent for the Commonwealth, its municipalities and public corporations, in connection with the issuance of bonds and notes, and to make loans to private enterprises to aid the economic development of Puerto Rico.

2012 ELECTIONS

As a result of the November 2012 Puerto Rico general elections, Alejandro J. García Padilla, a member of the Popular Democratic Party, was sworn in as Governor in January of 2013. The Popular Democratic Party also won a majority of seats in both the Senate and the House of Representatives.

ECONOMIC CONDITIONS AND OUTLOOK

The economy of Puerto Rico is closely linked to the United States economy, as most of the external factors that affect the local economy are determined by the policies and performance of the mainland economy. These external factors include exports, direct investment, the amount of federal transfer payments, the level of interest rates, the rate of inflation, and tourist expenditures.

From fiscal year 2008 to fiscal year 2012, the manufacturing and service sectors generated the largest portion of gross domestic product. Manufacturing is the largest sector of the Puerto Rico economy in terms of gross domestic product. In the last three decades, industrial development in Puerto Rico has been relatively capital intensive and dependent on skilled labor.

Puerto Rico has experienced mixed results in the service sector, which includes wholesale and retail trade, utilities, transportation and warehousing, information, finance and insurance, real estate and rental, and certain services such as professional, scientific, technical, management, administrative, support, educational, health care, social, recreational, accommodation, food and other services. This sector has expanded in terms of income over the past decade, following the general trend of other industrialized economies, but with differences on the magnitudes of those changes. The development of the service sector has been positively affected by demand generated by other sectors of the economy, such as manufacturing and construction.

Tourism makes a significant contribution to economic activity. An estimated $3.2 billion were spent by visitors in Puerto Rico during fiscal year 2012. San Juan is the largest homeport for cruise ships in the Caribbean and one of the largest homeports for cruise ships in the world. During the fiscal year 2012, the number of persons registered in tourist hotels increased 9.4% compared with fiscal year 2011.

The Puerto Rico Planning Board's preliminary reports on the performance of the Puerto Rico economy for fiscal year 2012 indicate that real gross national product increased 0.1% over fiscal year 2011. Nominal gross national product was $69.5 billion in fiscal year 2012, compared to $65.6 billion in fiscal year 2011. Aggregate personal income increased from $61.6 billion in fiscal year 2011 to $62.3 billion in fiscal year 2012, and personal income per capita increased from $16,611 in fiscal year 2011 to $16,934 in fiscal year 2012.

According to the Household Survey, the number of persons employed in Puerto Rico during fiscal year 2012 averaged 1,035,465, a decrease of 1.1% compared to the previous fiscal year; and the unemployment rate averaged 15.2%.

MAJOR INITIATIVES

Comprehensive Reform of Employees Retirement System

On April 4, 2013, the Governor signed into law Act 3 of 2013 (Act 3), which adopted a comprehensive reform of the Employees Retirement System of the Commonwealth of Puerto Rico (ERS), the largest of the three Commonwealth retirement systems that are funded primarily with budget appropriations from the Commonwealth's General Fund. The other two systems are the Puerto Rico System of Annuities and Pensions for Teachers (the "Teachers Retirement System") and the Commonwealth Judiciary Retirement System (the "Judiciary Retirement System").

The ERS situation was approached through Act 3, which became effective on July 1, 2013 ("Effective Date"). The Act establishes the following: (i) it freezes and grandfathers the benefits that have accrued through June 30, 2013 of those participants who are covered by the ERS's defined benefit formula (those who joined the ERS prior to January 1, 2000 whose retirement benefits accrued at a rate of 1.5% or 2% per year of creditable service) (the "Defined Benefit Employees"); (ii) it provides that, beginning on July 1, 2013, the retirement benefits accruing on and after the Effective Date for Defined Benefit Employees will be based on a defined contribution plan and will be paid out in the form of a lifetime annuity (upon retirement, the employee will receive the benefits accrued through June 30, 2013 based on the defined benefit formula plus the contributions made by the employee after June 30, 2013 in the form of a lifetime annuity); (iii) it provides that defined contribution benefits accrued pursuant to System 2000 will also be paid in the form of a lifetime annuity rather than a lump sum payment; (iv) it eliminates the so called "merit pension" that provided to participants who joined the Employees Retirement System prior to April 1, 1990, after attaining 30 years of service, a retirement benefit of 65% (if less than 55 years of age) or 75% (if age 55 or greater) of the average salary earned during the highest 36 months of employment; (v) it increases the retirement age for various groups of participants; (vi) it increases the employee contribution to the ERS from 8.275% to a minimum of 10%; (vii) it eliminates or reduces various retirement benefits previously granted by special laws and the System will benefit from the savings generated; (viii) it increases the minimum pension from $400 to $500 per month for current retirees; and (ix) it eliminates or modifies other benefits, such as disability and survivor benefits.
Absent the enactment of Act 3, it was anticipated that the assets of the ERS would be depleted by fiscal year 2019 and that the cash funding shortfall during the period between fiscal year 2019 and fiscal year 2043 would be, on average, $905 million per year, which the Commonwealth and the other employers would have been required to contribute. With the enactment of Act 3, and considering an additional annual contribution of $140 million for the next 20 years, (an appropriation which has been included in the proposed budget for fiscal year 2014 and signed into law by Act 32 of 2013), it is projected that the cash funding shortfall of the ERS will be eliminated.

The adoption of Act 3 was a critical step in addressing the financial condition of the ERS. Based on current census data, expectation of market conditions and other actuarial assumptions, the ERS's actuaries expect that the changes to the System instituted by Act 3, when taken together with an additional annual contribution of $140 million for the next 20 years, will be sufficient to cover the System's obligations now and in the long-term. Act 3 does not address the underfunding condition of the Teachers Retirement System or the Judiciary Retirement System, nor does it eliminate the need for the Commonwealth to make additional contributions to the ERS, as discussed above. The Commonwealth is evaluating alternatives for addressing the funding shortfall of the Teachers Retirement System.

Fiscal Stabilization

The current administration has sponsored various initiatives to seek fiscal balance, stimulate economic growth, and safeguard and strengthen the Commonwealth's investment grade credit rating. These include: 1) an initiative which resulted in $280 million in advance payments of non-resident withholding tax related to manufacturing patents, and 2) the transfer of $240 million in excess funds in the Redemption Fund to the General Fund. These and other measures have reduced the projected deficit for fiscal year 2013. In addition, the Government implemented a tax amnesty program, designed to increase revenues by encouraging taxpayers with older tax liabilities to pay them, and is considering additional measures such as the sale of tax accounts receivable to further reduce the deficit for the current fiscal year.

Comprehensive Tax Reform

Puerto Rico faces a fiscal crisis which requires an effective and thorough plan. The current situation shows a weak economic outlook, which is a reflection of a worldwide recession. At the same time, there is a progressive deterioration of fiscal matters of the Government. This deterioration affects the capacity of the General Fund to generate sufficient funds to comply with its obligations with the government retirees and the reduction of government expenditures, among others. It also affects the capacity of the Government of Puerto Rico to access the financial markets because of the high interest rates that the Government must pay based on its actual reality. This reality inhibits the Government's capacity to make public improvements, which constitutes a fundamental piece of the economic and social development of Puerto Rico. Therefore, there is a need to establish a structure that allows the addition of new revenues to the General Fund without overburdening the working class of the Commonwealth. The solutions that have been identified and the manner in which they will be applied will reflect the transparency with which this Administration will work from now on, in contrast with prior administrations. The plan which is detailed in Act No. 40 of June 30, 2013 includes the following amendments to several laws, regulations and Codes: 1) the Puerto Rico Insurance Code; 2) the Property Tax Law; 3) the Savings and Loans Cooperatives Law; 4) the Sales and Use Tax Financing Corporation (COFINA) Law, and 5) Several articles of the Internal Revenue Code of 2011. These amendments will be applied in a proportional, fair, integrated and responsible manner, to address: 1) the fiscal crisis of the Government of Puerto Rico; 2) the protection of the credit rating of the Government of Puerto Rico; 3) the constitutional responsibility of addressing the structural deficit of the Government of Puerto Rico, and 4) the addition of new revenues to the General Fund in order to serve as a catalyst for the economic growth.

Additional actions were decisively taken. Act No. 41 and the other Acts detailed below were approved on the same date. Act No. 41 establishes an increase to the cigarettes and other tobacco derivatives tax. This Act will impose an additional tax of eleven dollars and fifteen cents ($11.15) for every 100 cigarettes. Starting on July 1, 2013, the total tax will be sixteen dollars and fifteen cents ($16.15) for every 100 cigarettes. Starting on July 1, 2015 it will be seventeen dollars ($17.00).

On the other hand, Act No. 31, signed and approved on June 26, 2013, designates $20 million from the cigarettes and other tobacco derivatives tax to alleviate the deficit of the Puerto Rico Highways and Transportation Authority (Highways Authority) and $10 million to the Puerto Rico Metropolitan Bus Authority (Bus Authority). During the fiscal year which ended on June 30, 2012, the revenues related to such tax were $172 million in the General Fund. The estimated revenues related to the new tax should provide the General Fund $17 million of additional revenues when compared to fiscal year 2012, net of the $30 million transferred to the Highways Authority and the Bus Authority. In addition, and also to alleviate the deficit of the Highways Authority, pursuant to Act No. 30, approximately $62 million of vehicle license fees were transferred from the General Fund to the Highways Authority.

Act No. 31 also raised the tax on crude oil derivatives and partially elaborated oil products or refined oil derivatives products on $9.25 for each crude oil barrel. The tax was previously based on a price index

scale. Additionally, this Act eliminates the ceiling of $120 million for this tax. The revenues obtained from this tax will be used to further alleviate the cash flow deficit of the Highways Authority, which as of June 30, 2012 was approximately $355 million. By approving this Act the new government does not have to impose an additional burden on the working class by imposing new taxes at the gas pump or vehicle licenses, and will also support the Highways Authority in repaying its debt with GDB, which represents roughly 24% of GDB's loans portfolio.

Furthermore, Act No. 48 increases the share of slot machines in casinos and restructures the manner in which its gains are distributed. It establishes as well a special tax of 1.5% for professional and consulting services rendered to a governmental entity, among others.

The rest of the Acts approved likewise address the fiscal crisis of the Commonwealth of Puerto Rico and include, among others, the creation of a budgetary support fund that will serve the needs of various agencies and will help pay legal claims and make public improvements and the creation of a fiscal reconstruction fund that will provide $245 million to help alleviate the current deficit.

The current Administration has come up against a reality of an unsuspected magnitude which has exposed a structural deficit of approximately $2,212 million composed of a financing deficit through COFINA of $332 million, the refinancing of debt of $775 million, actual expenditures over budget in several agencies amounting to $140 million and an insufficiency of net revenues of the General Fund of approximately $965 million as of January 31, 2013.

Economic Growth

In recent years, the Commonwealth has emphasized the following initiatives to enhance Puerto Rico's competitive position: (i) a program designed to stimulate the creation of jobs; (ii) overhauling the permitting process; (iii) reducing energy costs; (iv) reforming the tax system; (v) promoting the development of various projects through public-private partnerships; (vi) implementing strategic initiatives targeted at specific economic sectors, and (vii) promoting the development of certain strategic/regional projects.

Jobs Act

The Jobs Now Act was signed into law on February 10, 2013. It purports to create approximately 50,000 jobs within 18 months by eliminating certain hurdles that delay or impede the process of establishing or expanding businesses in Puerto Rico. It seeks to allow better access to capital, and also provides incentives under agreements between certain eligible businesses and the Government of Puerto Rico by means of the Puerto Rico Commerce and Exports Company. The benefits provided under the Act include, among others, partial reimbursement of salaries paid to certain persons previously unemployed, nominal rents on buildings owned by PRIDCO, two year property tax exemption for previously vacant buildings, preferential income tax rate for the first two years of operations, full municipal license tax and personal property tax exemption for first the two years of operation and extended carryover period for net operating losses incurred during the first two years of operations, as well as an energy credit per incremental job to be used against the electricity bill. The Act also provides for an expedited permitting process for establishing eligible businesses and orders the Economic Development Bank to both give priority to loan applications submitted by eligible businesses and to create programs to guarantee private financing to such eligible entities.

Energy Policy

In July of 2010, the Commonwealth enacted legislation focused on reducing Puerto Rico's dependence on fossil fuels, particularly oil, through the promotion of diverse renewable-energy technologies. This legislation seeks to lower energy costs, reduce energy-price volatility, and establish environmentally

sustainable energy production through a reduction in ecologically harmful emissions. It creates a Renewable Portfolio Standard, recognizing many sources of renewable energy that utilize various technologies, and setting a hard target of 12% renewable energy production by 2015 and 15% by 2020, and a requirement for retail energy providers to establish a plan to reach 20% renewable energy production by 2035.

The legislation additionally provides incentives for the construction and use of renewable energy sources, and creates a Green Energy Fund through which the Commonwealth will co-invest $290 million in renewable energy projects over the next ten years. These initiatives are expected to address energy prices in Puerto Rico and provide a means for attracting investment in the energy sector.

Public-Private Partnerships

The current Administration believes that public private partnerships ("PPPs"), if well implemented, can represent an important tool for economic development provided that they always meet certain criteria to further the public interest in each project undertaken in this manner. PPPs are long-term contracts between government and non-governmental entities (such as private companies, credit unions, and municipal corporations) to develop, operate, manage or maximize infrastructure projects and/or government services. PPP contracts are centered on the concept of risk transfer, where the non-governmental partner takes on certain responsibilities and risks related to the development and/or operation of the project in exchange for certain benefits. PPPs can play an important role in restoring investment in infrastructure, improving the quality and the efficiency of important public services and bringing about economic growth. In the same manner, PPPs provide the opportunity for the government to lower project development costs, accelerate project development, reduce financial risk, create additional revenue sources, establish service quality metrics, re-direct government resources to focus on the implementation of public policy, improve the quality of infrastructure facilities and of services, as well as create jobs and attract new investment. Puerto Rico has opportunities for the establishment of PPPs in the areas of toll roads, public transit, airports and maritime ports, public schools, water provision, correctional facilities, and energy generation, among others. In that sense, Act No. 29 of 2009, through the Public-Private Partnerships Authority ("PPP Authority") it created, can represent an important vehicle to attain the aforementioned objectives. In the past few years, a limited number of projects were undertaken, which we briefly describe hereunder.

In an effort to modernize public school facilities throughout the island and to trigger improved academic performance, the PPP Authority launched a program in a selected number of public schools throughout Puerto Rico. The program was expected to impact nearly 50,000 students, 2,000 teachers and various communities and create 14,000 jobs throughout Puerto Rico. The Government funded this project with the proceeds of Qualified School Construction Bonds (QSCB) issued by the Public Buildings Authority in the aggregate principal amount of $756 million.

The PPP strategy was also applied to address certain challenges faced by the Puerto Rico Ports Authority. On August 8, 2011, the PPP Authority and the Puerto Rico Ports Authority ("Ports Authority") received statements of qualifications from twelve (12) world-class consortia in response to the Request for Qualifications (RFQ) to grant a concession for financing, operation, maintenance and improvement of the Luis Muñoz Marín International Airport ("Airport"), the busiest airport in the Caribbean. The primary objectives of the PPP Authority and the Ports Authority were: (i) maximizing the upfront value for the Airport; (ii) improving the Airport's safety standards, service levels and quality; (iii) maintaining and improving the quality of service to travelers as well as achieving a higher level of customer satisfaction, and (iv) creating a world-class gateway to Puerto Rico while increasing the Island's profile as a destination in the Caribbean, in order to positively impact the development of the tourism industry and overall economic prospects in Puerto Rico. On July 17, 2012 the PPP Authority and the Ports Authority selected Aerostar Airport Holdings, LLC, a partnership formed by between "Grupo Aeropuertuario de Sureste" S.A.B. de C.V. ("ASUR") and Highstar Capital IV, as the winning proponent based on an

upfront payment of $615 million. On July 24, 2012, the parties executed the lease agreement for the Airport and, on February 27, 2013, the parties successfully completed the financial closing. As a result of this transaction, on February 27, 2013, the Ports Authority received a lump-sum payment of $615 million and will receive an estimated $552 million in revenue sharing over the life of the lease. It is estimated that Aerostar will invest $1.4 billion in the Airport during the life of the lease, including a commitment to invest approximately $267 million in immediate improvements and comply with world-class operating standards.

The PPP Authority is currently evaluating projects for the development and construction of new infrastructure facilities. These projects include a rail transportation system from Caguas to San Juan and the extension of the PR-22 Highway from Hatillo to Aguadilla, among others.

FINANCIAL CONDITION

The MD&A, which can be found immediately following the independent auditors' report, provides an overview of the financial activities addressing both governmental and business type activities reported in the government wide financial statements. In addition, the MD&A focuses on the Commonwealth's major funds. Component units and fiduciary activities are excluded from the MD&A.

OTHER INFORMATION

Acknowledgements

The preparation of this report required the collective efforts, cooperation and support of numerous accounting and finance officials throughout the Commonwealth. Their dedicated efforts are sincerely appreciated.

The report could not have been accomplished without the professionalism and dedication of Jayson O. Padilla Morales, as well as the rest of the personnel of the Central Government Accounting Area, and Jorge Clivillés and Denisse Rodríguez from GDB, among other officials. This report reflects their collective efforts and is issued in compliance with the highest standards of financial accountability.

Respectfully submitted,

Melba Acosta Febo, CPA, Esq.
Secretary of the Treasury

COMMONWEALTH OF PUERTO RICO

PRINCIPAL OFFICIALS

Alejandro García Padilla
Governor

Members of the Cabinet

Ingrid M. Vila Biaggi
Chief of Staff

David E. Bernier Rivera
Secretary of State

Luis Sánchez Betances
Secretary of Justice

Melba I. Acosta Febo
Secretary of the Treasury

Rafael Román Meléndez
Secretary of Education

Vance Thomas Rider
Secretary of Labor and Human Resources

Ana C. Rius Armendariz
Acting Secretary of Health

Myrna Comas Pagán
Secretary of Agriculture

Miguel Torres Díaz
Secretary of Transportation and Public Works

Alberto Bacó Bagué
Secretary of Economic Development and Commerce

Idalia Colón Rondón
Secretary of Family Affairs

Rubén Ríos Pagán
Secretary of Housing

Carmen R. Guerrero Pérez
Secretary of Natural and Environmental Resources

Nery E. Adames Soto
Secretary of Consumer Affairs

Ramón E. Orta Rodríguez
Secretary of Sports and Recreation

José R. Negrón Fernández
Secretary of Corrections and Rehabilitation

LEGISLATIVES OFFICERS

Eduardo Bhatia Gautier
President, Senate

Jaime Perelló Borrás
Speaker, House of Representatives

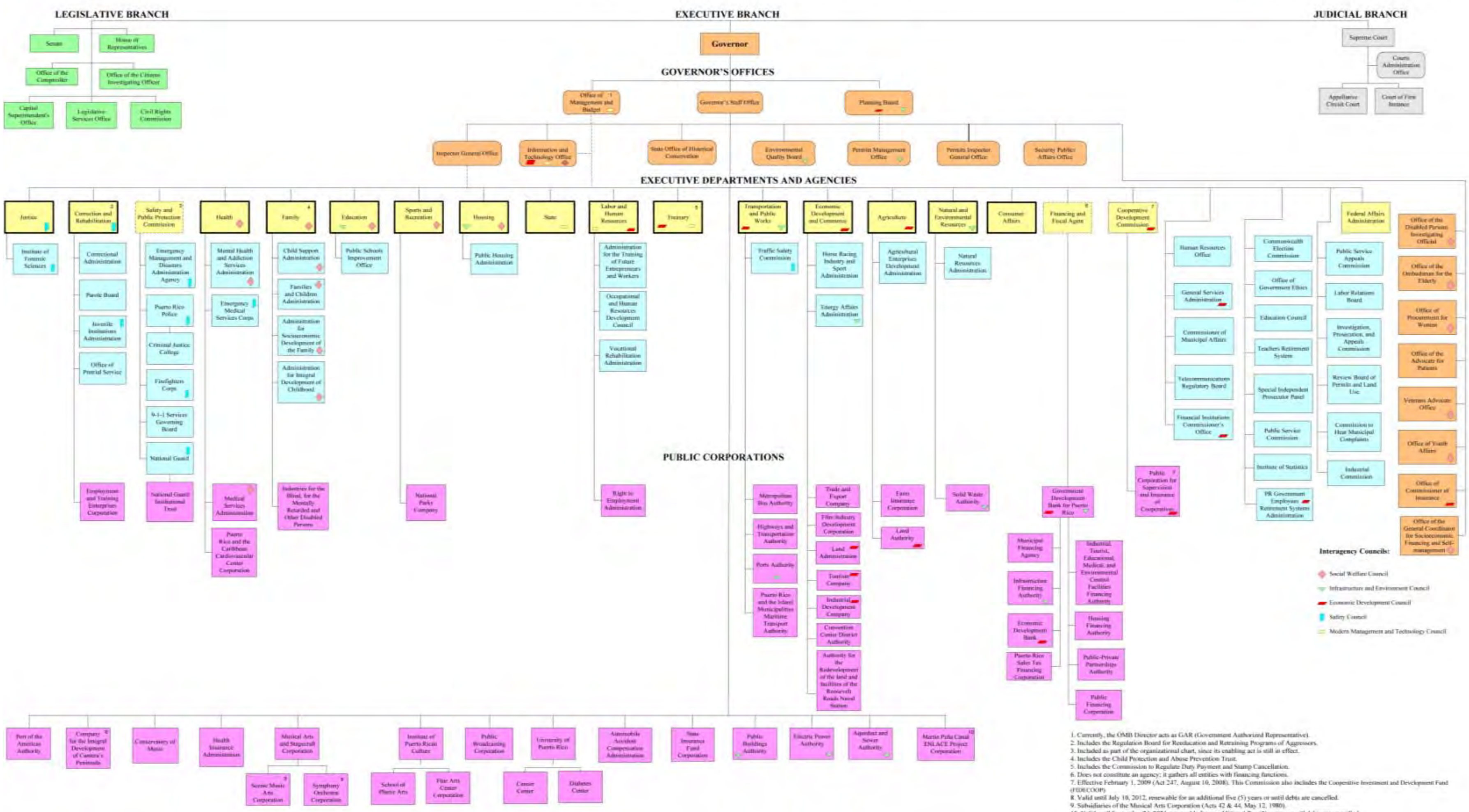
FISCAL OFFICERS

Carlos Rivas Quiñones
Director, Office of Management and Budget

José Pagán Beauchamp
Acting President, Government Development Bank for Puerto Rico

OMB
OFFICE OF MANAGEMENT AND BUDGET

GOVERNMENT OF PUERTO RICO
FUNCTIONAL ORGANIZATIONAL STRUCTURE



1. Currently, the OMB Director acts as GAR (Government Authorized Representative).
2. Includes the Regulation Board for Reeducation and Retraining Programs of Aggressors.
3. Included as part of the organizational chart, since its enabling act is still in effect.
4. Includes the Child Protection and Abuse Prevention Trust.
5. Includes the Commission to Regulate Duty Payment and Stamp Cancellation.
6. Does not constitute an agency; it gathers all entities with financing functions.
7. Effective February 1, 2009 (Act 247, August 10, 2008). This Commission also includes the Cooperative Investment and Development Fund (FIDECOOP).
8. Valid until July 18, 2012, renewable for an additional five (5) years or until debts are cancelled.
9. Subsidiaries of the Musical Arts Corporation (Acts 42 & 44, May 12, 1980).
10. Valid until September 24, 2024, renewable for an additional five (5) years or until debts are cancelled.

Revised June/2011

FINANCIAL SECTION

Deloitte.

Deloitte & Touche LLP
Torre Chardon
350 Chardon Ave.
Suite 700
San Juan, PR 00918-2140
USA

Tel: +1 787 759 7171
Fax: +1 787 756 6340
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Honorable Governor and Legislature
Commonwealth of Puerto Rico
San Juan, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Puerto Rico (the "Commonwealth"), as of and for the year ended June 30, 2012, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following activities, funds, and component units:

- Puerto Rico Public Housing Administration, Labor Development Administration, the Office for the Administration of the Assets of the Urban Renovation and Housing Corporation of the Commonwealth of Puerto Rico, and the Office for the Improvements of Public Schools, which collectively represent 18% and 3%, respectively, of the assets and revenues of the governmental activities and 29% and 4%, respectively, of the assets and revenues of the general fund;

- The Unemployment Insurance Fund, which is both a major fund and 36% and 38%, respectively, of the assets and revenues of the business-type activities. The Additional Lottery System, which represents 68% and 50%, respectively, of the assets and revenues of the lotteries fund and 10% and 28%, respectively, of the assets and revenues of the business-type activities. The Disability Insurance Fund, the Drivers' Insurance Fund, the Puerto Rico Water Pollution Control Revolving Fund and the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund, which represent 54% and 5%, respectively, of the assets and revenues of the business-type activities and 7% and 4%, respectively, of the assets and revenues of the aggregate remaining fund information;

- Public Buildings Authority special revenue, debt service, and capital project funds; The Children's Trust special revenue and debt service funds; and the Puerto Rico Maritime Shipping Authority debt service fund, which collectively represent 9% and .28%, respectively, of the assets and revenues of the governmental activities and 13% and 3%, respectively, of the assets and revenues of the aggregate remaining fund information;

- Entities identified in note 2 that are presented as discretely presented component units, which collectively represent 72% and 92%, respectively, of the assets and revenues of the aggregate discretely presented component units.

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the activities, funds, and component units indicated above, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commonwealth's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 20 to the basic financial statements, the Pension Trust Funds' unfunded actuarial accrued liability and funded ratio as of June 30, 2012, were approximately $37,017 million and 8.4%, respectively. In the opinion of management, based on information prepared by consulting actuaries, the net assets of the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico, the Commonwealth of Puerto Rico Judiciary Retirement System, and the Puerto Rico System of Annuities and Pensions for Teachers, comprising the Pension Trust Funds, will be exhausted by the fiscal years 2015, 2019, and 2021, respectively, if measures are not implemented to reduce the unfunded actuarial accrued liability and increase the funded ratio of the Pension Trust Funds. Management's plans concerning this matter are also described in Note 20.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 20 through 33 and the schedules of funding progress on pages 240 and 241 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth's financial statements. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial

statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the reports of other auditors, the combining and individual nonmajor fund financial statements and schedules are fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth's basic financial statements. The introductory and statistical sections are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Deloitte & Touche LLP

September 16, 2013

Stamp No. E85052
affixed to original.

COMMONWEALTH OF PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS [1]
JUNE 30, 2012

The following is a narrative overview and analysis of the financial activities of the Commonwealth of Puerto Rico (the "Commonwealth" or the "Government") for the fiscal year ended June 30, 2012. The management discussion and analysis ("MD&A") is intended to serve as an introduction to the basic financial statements, which have the following components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. The MD&A is designed to: (a) assist the reader in focusing on significant financial matters; (b) provide an overview of the Commonwealth's financial activities; (c) identify any material changes from the original budget; and (d) highlight individual fund matters. We encourage readers to review this information in conjunction with the Letter of Transmittal, which is located in the Introductory Section of this report, and the Commonwealth's basic financial statements, including the notes to the financial statements, which are located after this analysis.

MAJOR FINANCIAL ELEMENTS

Revenues — The General Fund is the primary operating fund of the Commonwealth. General Fund revenues are broadly based and include revenues raised internally as well as those from non-Puerto Rico sources. Internal revenues consist principally of income tax, sales and use tax, and excise tax. Revenues from non-Puerto Rico sources are derived from federal excise taxes and customs duties returned to the Commonwealth. The major source of revenue from the component units are charges for services.

Expenditures — Expenditures consist principally of grants and subsidies, personal services, other services, materials and supplies, equipment purchases, capital outlays, debt service and transfers.

Debt — Comprises bonds and notes of the Commonwealth and component units. The Commonwealth's policy has been and continues to be to prudently manage its debt within the constitutional limitation. Debt of component units, other than bond anticipation notes, is generally supported by the revenues of such units from rates charged for services or products and Commonwealth's pledged revenues. However, certain debt of component units is supported, in whole or in part, directly or indirectly, by Commonwealth appropriations or taxes. Direct debt of the Commonwealth is issued pursuant to specific legislation approved in each particular case. Debt of component units is issued in accordance with their enabling statutes. Government Development Bank for Puerto Rico ("GDB"), as fiscal agent of the Commonwealth, must approve the specific terms of each debt issuance.

[1] The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Commonwealth's management. The independent auditors have applied certain limited procedures, which consisted of inquiries of management about about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge they obtained during the audit of the basic financial statements. Therefore, the independent auditors did not audit such information and did not express an opinion nor provide any assurance on it.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the Commonwealth's basic financial statements. The Commonwealth's basic financial statements include three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. This report also contains additional required supplementary information in addition to the basic financial statements themselves.

The basic financial statements include two kinds of financial statements that present different views of the Commonwealth, the government-wide financial statements and the fund financial statements. These financial statements also include the notes to the basic financial statements that explain some of the information in the financial statements and provide more detail.

Government-Wide Financial Statements

The government-wide financial statements provide a broad view of the Commonwealth's operations in a manner similar to commercial enterprises. The statements provide both short and long-term information about the Commonwealth's financial position, which assists in assessing the Commonwealth's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenue and expenses connected with the fiscal year even if cash involved has not been received or paid. The government-wide financial statements include two statements:

- ***Statement of Net Assets (Deficit)*** — This presents all of the government's assets and liabilities with the difference between the two reported as net assets (deficit). Over time, increases or decreases in the Commonwealth's net assets (deficit) may serve as a useful indicator of whether the financial position of the Commonwealth is improving or deteriorating.

- ***Statement of Activities*** — This presents information showing how the government's net assets (deficit) changed during the most recent fiscal year. All changes in net assets (deficit) are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the Commonwealth.

Both of the above financial statements have the following columns:

- ***Governmental Activities*** — These activities are mostly supported by taxes and intergovernmental revenue (federal grants). Most services normally associated with the Commonwealth government fall into this category, including general government, education, public housing and welfare, health, public safety and economic development.

- ***Business Type Activities*** — These activities normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business type activities of the Commonwealth include the operations of the following major funds: Unemployment Insurance Trust Fund (administered by the Commonwealth's Employment Security Bureau) and the Lotteries Fund.

- ***Component Units*** — These are organizations that are legally separate from the Commonwealth, but either the Commonwealth is financially accountable for them or the nature and significance of their relationship with the Commonwealth are such that their exclusion would cause the Commonwealth's

financial statements to be misleading or incomplete. The Commonwealth has both blended and discretely presented component units. Blended component units are presented within primary government activities. Discretely presented component units are presented in a separate column.

The government-wide financial statements can be found immediately following this management's discussion and analysis.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth uses fund accounting to help ensure and demonstrate compliance with finance related legal requirements. The fund financial statements focus on individual parts of the Commonwealth government, reporting the Commonwealth's operations in more detail than the government-wide financial statements. All of the funds of the Commonwealth can be divided into three categories. The three categories of funds are the following:

- ***Governmental Funds Financial Statements*** — Most of the basic services provided by the Commonwealth are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of expendable resources. They also focus on the balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short term view of the Commonwealth's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the Commonwealth. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances (deficit) provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

The Commonwealth has five major governmental funds. That is, each major fund is presented in a separate column in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances (deficit). The Commonwealth's five major governmental funds are:

- The General Fund
- The Pledged Sales and Use Tax Fund
- The Debt Service Fund
- The COFINA Special Revenue Fund
- The COFINA Debt Service Fund

The remaining non-major governmental funds are grouped and presented in a single column in the governmental funds financial statements. The basic governmental funds financial statements can be found immediately following the government-wide financial statements.

- ***Proprietary Funds Financial Statements*** — These funds are used to show activities that operate more like those of commercial enterprises. Because these funds charge fees for services provided to outside customers, including local governments, they are known as enterprise funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements. The Commonwealth has two major proprietary funds: (i) the Unemployment Insurance Fund; and (ii) the Lotteries Fund, which includes the Lottery of Puerto Rico and the Additional Lottery System. Other non-major proprietary funds are grouped and presented in a separate column in the proprietary funds financial statements. The basic proprietary funds financial statements can be found immediately following the governmental fund financial statements.

- ***Fiduciary Funds and Similar Component Units Financial Statements*** — These funds are used to account for resources held for the benefit of parties outside the Commonwealth government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the Commonwealth's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. They use the accrual basis of accounting. The Commonwealth's fiduciary funds are: (i) the pension trust funds (three separate retirement systems for employees, which are fiduciary component units of the Commonwealth); and (ii) the agency funds (which account for the assets held for distribution by the Commonwealth as an agent for other governmental units, other organizations, or individuals). The basic fiduciary funds financial statements can be found immediately following the proprietary funds financial statements.

Component Units Financial Statements

Component units are legally separate entities, for which the Commonwealth has financial accountability, but they have certain independent qualities as well. The government-wide financial statements present information for the component units in a single column on the statement of net assets (deficit). Also, some information on the statement of net assets (deficit) is aggregated for component units. The combining statements of net assets and the combining statement of activities provide detail for each major component unit and the non-major component units in aggregate. The combining financial statements for major component units can be found immediately following the fiduciary funds financial statements.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the basic financial statements can be found immediately following the major component units' combining financial statements.

Required Supplementary Information and Supplementary Information

The basic financial statements include a section of required supplementary information immediately following its notes. This section includes information of funding progress for the Commonwealth's three separate retirement systems, supplemental schedule of expenditures by agency-budget and actual budget basis-general fund, non-major governmental funds, non-major proprietary funds, fiduciary funds and non-major discretely presented component units.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets (Deficit)

Net assets (deficit) may serve over time as a useful indicator of a government's financial position. Total assets and total liabilities of the Commonwealth's primary government at June 30, 2012 amounted to $16.3 billion and $55.3 billion, respectively, for a net deficit of $39 billion, compared to a $33.7 billion net deficit at the beginning of the current year.

A portion of the Commonwealth's net assets (deficit) reflects its investment in capital assets such as land, buildings, and equipment, less any related debt used to acquire those assets. The Commonwealth uses these capital assets to provide services to its residents.

An additional portion of the Commonwealth's net assets (deficit) represents resources that are subject to external restrictions on how they may be used. Internally imposed designations of resources are not presented as restricted net assets.

COMMONWEALTH'S NET ASSETS (DEFICIT) — PRIMARY GOVERNMENT
JUNE 30, 2012
(Expressed in thousands)

	Governmental Activities	Business-Type Activities	Total
Current assets	$ 2,825,114	$ 743,508	$ 3,568,622
Capital assets	8,145,800	1,726	8,147,526
Other assets	4,077,364	531,089	4,608,453
Total assets	15,048,278	1,276,323	16,324,601
Current liabilities	5,568,739	164,458	5,733,197
Noncurrent liabilities	49,480,175	148,615	49,628,790
Total liabilities	55,048,914	313,073	55,361,987
Invested in capital assets, net of related debt	3,473,838	1,726	3,475,564
Restricted	2,273,099	950,753	3,223,852
Unrestricted	(45,747,573)	10,771	(45,736,802)
Total net assets (deficit)	$ (40,000,636)	$ 963,250	$ (39,037,386)

COMMONWEALTH'S NET ASSETS (DEFICIT) — PRIMARY GOVERNMENT
JUNE 30, 2011
(Expressed in thousands)

	Governmental Activities	Business-Type Activities	Total
Current assets	$ 3,264,534	$ 584,140	$ 3,848,674
Capital assets	7,766,886	1,660	7,768,546
Other assets	2,935,147	594,001	3,529,148
Total assets	13,966,567	1,179,801	15,146,368
Current liabilities	4,611,611	183,693	4,795,304
Noncurrent liabilities	43,864,091	165,882	44,029,973
Total liabilities	48,475,702	349,575	48,825,277
Invested in capital assets, net of related debt	3,691,871	1,660	3,693,531
Restricted	1,495,558	840,241	2,335,799
Unrestricted	(39,696,564)	(11,675)	(39,708,239)
Total net assets (deficit)	$ (34,509,135)	$ 830,226	$ (33,678,909)

Changes in Net Assets (Deficit)

The Commonwealth's net deficit increased by $5.4 billion or 16% from last year's total net deficit, as restated. Approximately 47.2% of the Commonwealth's total revenue came from taxes, while 41.5% resulted from grants and contributions (primarily federal financial assistance). Charges for services provided represented 10.5% of the total revenue. The Commonwealth's expenses cover a range of services. The largest expenses were for general government, education, public housing and welfare, health, and public safety, which presented a combined increase of 6.2% when compared with prior fiscal year. In 2012, governmental activities' expenses exceeded program revenue by $13.9 billion, resulting in the use of $8.4 billion of general revenue (mostly taxes and transfers). On the other hand, program revenue from business-type activities in fiscal year 2012 exceeded expenses by approximately $340.8 million.

Governmental activities increased the Commonwealth's net deficit by $5.5 billion, while business-type activities decreased the Commonwealth's net deficit by $133 million.

COMMONWEALTH OF PUERTO RICO
CHANGES IN NET ASSETS (DEFICIT) — PRIMARY GOVERNMENT
YEAR ENDED JUNE 30, 2012
(Expressed in thousands)

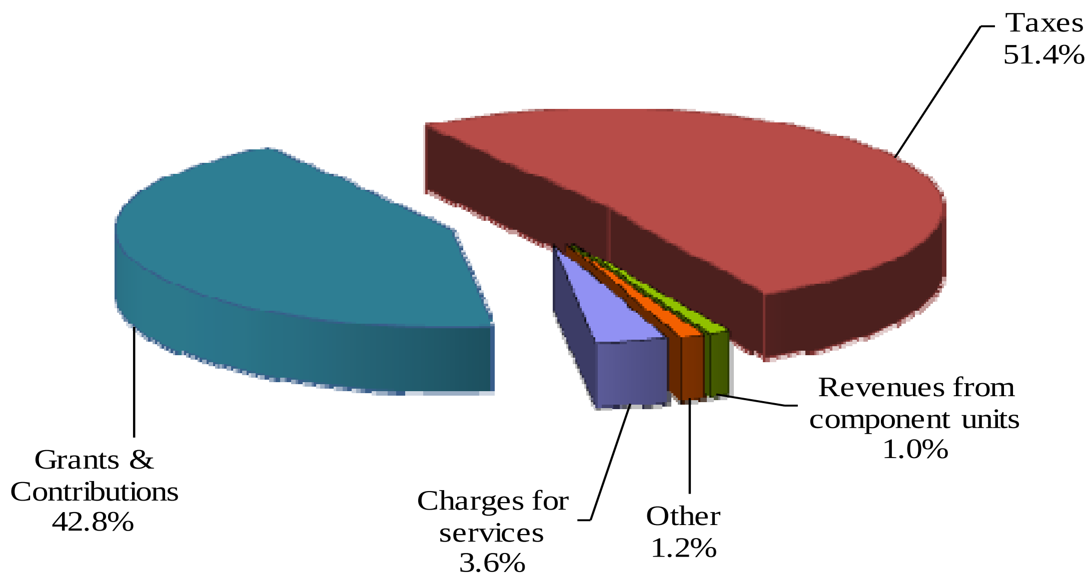
	Governmental Activities	Business-Type Activities	Total
Revenues:			
Program revenues:			
Charges for services	$ 560,313	$ 1,219,769	$ 1,780,082
Operating grants and contributions	6,531,687	364,219	6,895,906
Capital grants and contributions	152,591	-	152,591
	7,244,591	1,583,988	8,828,579
General revenues:			
Income taxes	4,037,400	-	4,037,400
Sales and use tax	1,144,659	-	1,144,659
Excise taxes	2,695,543	-	2,695,543
Other taxes	151,102	-	151,102
Revenues from component units	158,064	-	158,064
Other, including loss on investments	(34,513)	12,029	(22,484)
	8,152,255	12,029	8,164,284
Total revenues	15,396,846	1,596,017	16,992,863
Expenses:			
General government	3,989,149	-	3,989,149
Public safety	2,227,507	-	2,227,507
Health	2,926,901	-	2,926,901
Public housing and welfare	3,658,873	-	3,658,873
Education	4,729,574	-	4,729,574
Economic develoment	785,918	-	785,918
Payment of obligations of component units	458,207	-	458,207
Intergovernmental	374,127	-	374,127
Interest and other	1,957,885	-	1,957,885
Lotteries	-	722,620	722,620
Unemployment	-	486,342	486,342
Non-major proprietary funds	-	34,237	34,237
Total expenses	21,108,141	1,243,199	22,351,340
Increase (decrease) in net assets before transfers	(5,711,295)	352,818	(5,358,477)
Transfers	219,794	(219,794)	-
Change in net assets (deficit)	(5,491,501)	133,024	(5,358,477)
Net assets (deficit), beginning of year (as restated)	(34,509,135)	830,226	(33,678,909)
Net assets (deficit), end of year	$ (40,000,636)	$ 963,250	$ (39,037,386)

COMMONWEALTH OF PUERTO RICO
CHANGES IN NET ASSETS (DEFICIT) - PRIMARY GOVERNMENT
YEAR ENDED JUNE 30, 2011
(Expressed in thousands)

	Governmental Activities	Business-Type Activities	Total
Revenues:			
Program revenues:			
Charges for services	$ 632,005	$ 1,192,724	$ 1,824,729
Operating grants and contributions	6,006,310	450,689	6,456,999
Capital grants and contributions	457,725	-	457,725
	7,096,040	1,643,413	8,739,453
General revenues:			
Income taxes	4,726,036	-	4,726,036
Sales and use tax	1,129,006	-	1,129,006
Excise taxes	2,106,784	-	2,106,784
Other taxes	317,292	-	317,292
Revenues from component units	84,610	-	84,610
Other	305,425	17,900	323,325
	8,669,153	17,900	8,687,053
Total revenues	15,765,193	1,661,313	17,426,506
Expenses:			
General government	2,881,548	-	2,881,548
Public safety	2,205,782	-	2,205,782
Health	3,022,000	-	3,022,000
Public housing and welfare	3,937,901	-	3,937,901
Education	4,469,337	-	4,469,337
Economic develoment	517,921	-	517,921
Payment of obligations of component units	6,411	-	6,411
Intergovernmental	430,941	-	430,941
Interest and other	1,807,230	40,044	1,847,274
Lotteries	-	697,746	697,746
Unemployment	-	635,145	635,145
Total expenses	19,279,071	1,372,935	20,652,006
Increase (decrease) in net assets before transfers	(3,513,878)	288,378	(3,225,500)
Transfers	230,551	(230,551)	-
Change in net assets (deficit)	(3,283,327)	57,827	(3,225,500)
Net assets (deficit), beginning of year	(31,225,808)	772,399	(30,453,409)
Net assets (deficit), end of year	$ (34,509,135)	$ 830,226	$ (33,678,909)

Revenues and Transfers— Governmental Activities

Year ended June 30, 2012



Governmental Activities

Governmental activities increased the Commonwealth's net deficit by $5.5 billion. A comparison of the cost of services by function for the Commonwealth's governmental activities is shown below, along with the revenue used to cover the net expenses of the governmental activities.

COMMONWEALTH'S GOVERNMENTAL ACTIVITIES
EXPENSES NET OF PROGRAM REVENUE
YEAR ENDED JUNE 30, 2012
(Expressed in thousands)

Net expense:	
General government	$ (3,478,005)
Public safety	(2,105,144)
Health	(1,075,344)
Public housing and welfare	(504,965)
Education	(3,347,851)
Economic development	(705,101)
Payment of obligations of component units	(458,207)
Intergovernmental	(231,048)
Interest and other	(1,957,885)
Total governmental activities expenses, net of program revenue	(13,863,550)
General revenues:	
Taxes	8,028,704
Revenues from component units	158,064
Transfers from business-type activities	219,794
Other, including loss on investments	(34,513)
Total governmental activities general revenue	8,372,049
Increase in governmental activities net deficit	$ (5,491,501)

Business-Type Activities

The business-type activities decreased the Commonwealth's net deficit by $133 million.

GOVERNMENTAL FUNDS

The focus of the Commonwealth's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Commonwealth's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of fiscal year 2012, the Commonwealth's governmental funds reported combined ending fund balance of $1.5 billion. In fiscal year 2012, the expenditures exceeded the revenues by $5.2 billion. However, this was offset by other financing sources amounting to $5.1 billion in the governmental funds. This year, the excess of expenditures over revenue increased by $1.4 billion compared with the prior year. Other financing sources increased by $2.3 billion compared to prior year.

During fiscal year 2012, there was an increase in General Fund total revenues, which is mainly due to an increase of $589 million in excise taxes prompted principally by the temporary excise tax imposed on certain foreign persons by Act No. 154 and $652 million in intergovernmental revenue. This increase was partially offset by a decrease of $681 million and $175 million in collections from income tax on individuals and property taxes, respectively. The decrease in individual income taxes is due to the tax relief provided to individual taxpayers as part of the tax reform and to current economic conditions. The Government expected that the decrease in General Fund net revenues as a result of the tax relief provided to individual taxpayers as part of the tax reform would be offset principally by the temporary excise tax imposed on certain foreign persons by Act No. 154. For fiscal year 2012, the excise tax payments amounted to $2.7 billion. Expenditures for fiscal year 2012 were approximately $9.9 billion, which represented an increase of approximately $831 million or 9.2% of original budgeted expenditures and exceeded total General Fund revenues (excluding other financing sources) by $1.3 billion, or 15.6%. The excess of total expenditures over total General Fund revenues (excluding other financing sources) is referred to herein as the “deficit” and was covered principally by proceeds from a COFINA bond issuance and proceeds from bonds issued to refinance debt service payments.

The general fund is the chief operating fund of the Commonwealth. At the end of the current fiscal year, the total general fund balance had a total deficit of $1,107 million. The fund’s deficit of the Commonwealth’s general fund increased by $856.2 million as a result of the current fiscal year’s change in financial position. This is a 342% increase when compared to total general fund deficit reported in fiscal year 2011.

The debt service fund is the fund in which the Commonwealth accumulates the resources for the payment of the long-term debt. At end of the fiscal year, the fund balance of the debt service fund increased by $314.8 million when compared to prior fiscal year. Bonds and interest payable increased by $93.2 million compared with prior year.

PROPRIETARY FUNDS

The Commonwealth’s proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The Commonwealth’s net assets of the business-type activities increased by $133 million as a result of operations in the proprietary funds. This resulted from an increase in net assets of $54.8 million by the unemployment insurance fund, $22.3 million in the lotteries fund and $55.9 million by the Commonwealth’s other proprietary funds.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Commonwealth’s investment in capital assets for its governmental and business type activities as of June 30, 2012 amounts to $11.9 billion, less accumulated depreciation and amortization of $3.8 billion, leaving a book value of $8.1 billion. This investment in capital assets includes land, construction in progress, buildings, building improvements and equipment as infrastructure.

The net book value of capital assets at June 30, 2012 is distributed by function/activity in the following proportions: general government, 44%; public safety, 5%; health, 1%; public housing and welfare, 32%; education, 5%; and economic development, 13%. Capital outlays were approximately $558.4 million for the fiscal year. During the year ended June 30, 2012, PRIFA also transferred completed construction projects amounting to approximately $144.6 million to PBA. Depreciation and amortization charges for the fiscal year totaled $294 million.

The infrastructure assets representing items that are normally immovable and of value only to the Commonwealth as roads, highways, bridges, toll facilities, water and sewer systems, lighting production, transmission and distribution systems, and similar items are principally owned by the component units of the Commonwealth. Therefore, the infrastructure assets are reported within depreciable capital assets under the discretely presented component units' column. Additional information on the Commonwealth's capital assets can be found in Note 13 to the basic financial statements that accompany this report.

COMMONWEALTH'S CAPITAL ASSETS — PRIMARY GOVERNMENT
JUNE 30, 2012
(Expressed in thousands)

	Governmental Activities	Business-Type Activities
Land	$ 878,881	$ -
Construction in progress	1,487,071	-
Buildings and building improvements, net	5,124,347	-
Equipment, furniture, fixtures, vehicles and software, net	193,535	1,726
Infrastructure, net	461,966	-
Total capital assets	$ 8,145,800	$ 1,726

Debt Administration

Total long-term obligations of the primary government as of June 30, 2012 were $51.7 billion, of which $2.0 billion are due within one year. Long-term obligations of the primary government increased by $5.9 billion, or 13%, when compared to the prior fiscal year.

General obligation bonds are backed by the full faith and credit of the Commonwealth, including the Commonwealth's power to levy additional taxes to help ensure repayment of the debt.

The Constitution of the Commonwealth provides that direct obligations of the Commonwealth evidenced by bonds or notes and backed by the full faith, credit, and taxing power of the Commonwealth are not to be issued if the amount of the principal of, and interest on, such bonds and notes and on all such bonds and notes issued thereafter, which are payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year on account of bonds or notes guaranteed by the Commonwealth, exceed 15% of the average annual revenue raised under the provisions of Commonwealth legislation and conveyed into the treasury (internal revenues) in the two fiscal years preceding the current fiscal year. Section 2, Article VI of the Constitution of the Commonwealth does not limit the amount of debt that the Commonwealth may guarantee as long as the 15% limitation is not exceeded through payments by the Commonwealth on such guaranteed debt. At June 30, 2012, the Commonwealth is in compliance with the debt limitation requirement.

The Commonwealth's policy has been and continues to be to prudently manage such debt within the constitutional limitation. Debt of municipalities, other than bond anticipation notes, is supported by real and personal property taxes, municipal license taxes, and the corresponding part of the sales and use tax. Debt of public corporations, other than bond anticipation notes, is generally supported by the revenues of such corporations from rates charged for services or products. However, certain debt of public corporations is supported, in whole or in part, directly or indirectly, by Commonwealth appropriations or taxes.

Internal revenues consist principally of income taxes, property taxes, sales and use taxes and excise taxes. Certain revenues, such as federal excise taxes on offshore shipments of alcoholic beverages and tobacco

products and customs duties, which are collected by the United States Government and returned to the Treasury Department of Puerto Rico and motor vehicle fuel taxes and license fees, which are allocated to the Highways and Transportation Authority, are not included as internal revenues for the purpose of calculating the debt limit, although they may be available for the payment of debt service. In addition, the portion of the sales and use tax allocated to COFINA is not included as internal revenues since the legislation that created COFINA transferred ownership of such portion of the sales and use tax to COFINA and provided that such portion was not available resources under the Constitutional provisions relating to full faith and credit bonds.

The Commonwealth's general obligation and appropriation debt is currently rated "Baa3" with a negative outlook by Moody's, "BBB-" with a negative outlook by Fitch, and "BBB-" with a negative outlook by S&P.

Additional information on the Commonwealth's long term debt can be found in Note 15 to the basic financial statements that accompany this report.

General Fund Budgetary Highlights

The Commonwealth adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. The statement of revenue and expenditures — budget and actual — budget basis — general fund only presents the information for the general fund for which there is a legally adopted budget, as required by US GAAP. See Note 3 to the basic financial statement for a reconciliation of the statement of revenue and expenditures — budget and actual — budget basis — general fund with the statement of revenues, expenditures, and changes in fund balance (deficit) for the general fund. This statement is presented on the page immediately following the reconciliation of the statement of revenues, expenditures, and changes in fund balances (deficit) to the statement of activities — governmental funds.

Total General Fund actual revenues on a budget basis (sources) for fiscal year 2012 was $8.6 billion, (excluding other financing source) representing an increase of approximately $51.5 million, or 6%, from original budgeted revenues and an increase of approximately $579 million from actual revenues of $7.9 billion for fiscal year 2011.

Total actual expenditures on a budget basis of $9.9 billion represented an increase of $836 million when compared with fiscal year 2011.

For fiscal year 2012, the actual budgetary deficit in the General Fund was $1.3 billion, consisting of the difference between total recurring revenues of $8.6 billion and total expenditures for such fiscal year of $9.9 billion. For fiscal year 2011, the deficit was $1.1 billion, consisting of the difference between total recurring revenues of $8 billion and total expenditures for such fiscal year of $9.1 billion. The deficits for fiscal years 2012 increased by 23% when compared to 2011 and decreased by 47% when compared to the deficit in 2010. The Government's ability to continue reducing the deficit will depend in part on its ability to continue increasing revenues and reducing expenditures, which in turn depends on a number of factors, including improvements in general economic conditions.

Differences Between Budget and Basic Financial Statements — Revenues and expenditures, as reported by the Treasury Department in its basic financial statements, may differ substantially from resources and appropriations in its annual budget for a number of reasons, including the following:

- The budgetary accounts are on a budgetary basis, while financial statements prepared by the Treasury Department include adjustments as required by government accounting standards.

- Expenditures for current purposes in a particular year may include amounts appropriated for earlier periods but not previously expended or amounts not budgeted for a particular fiscal year, but expended during that year, and, conversely, may exclude amounts appropriated for such fiscal year but not expended until later periods.

- Bonds are authorized by the Commonwealth in accordance with a four year capital improvement program. Since bond sale are determined by bond market conditions and other factors, the amounts for bonds sold for these improvements are financed by advances from the General Fund to the Capital Projects Fund, which are later reimbursed from proceeds of a bond or notes sales.

Requests for Information

This financial report is designed to provide a general overview of the Commonwealth's finances for all of the Commonwealth's residents, taxpayers, customers, investors, and creditors. This financial report seeks to demonstrate the Commonwealth's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Department of the Treasury of the Commonwealth of Puerto Rico, Área de Contabilidad Central, P.O. Box 9024140, San Juan, PR 00902-4140.

COMMONWEALTH OF PUERTO RICO

STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Totals Primary Government	Component Units
ASSETS:				
Cash and cash equivalents in commercial banks	$ 394,060	$ 48,424	$ 442,484	$ 1,682,465
Cash and cash equivalents in governmental banks	392,320	90,145	482,465	556,912
Investments	23,268	-	23,268	1,514,530
Collateral from securities lending transactions	-	-	-	112,060
Receivables — net of allowance for uncollectibles:				
Income and excise taxes	1,232,925	-	1,232,925	-
Sales and use tax	102,879	-	102,879	-
Unemployment and other insurance premiums	-	4,299	4,299	46,199
Intergovernmental	344,500	-	344,500	53,029
Accounts	88,814	-	88,814	1,065,885
Loans	77,128	-	77,128	4,542,078
Accrued interest	40,110	90	40,200	160,421
Other governmental entities	-	-	-	449,821
Other	41,746	9,487	51,233	34,804
Due from:				
Primary government	-	-	-	365,008
Component units — net of allowance for doubtful accounts amounting to $47.6 million in Governmental Activities	67,599	-	67,599	351,151
Other governmental entities	22,984	-	22,984	-
Internal balances	(37,077)	37,077	-	-
Inventories	10,743	-	10,743	468,265
Prepaid expenses	10,299	-	10,299	53,695
Other assets	12,816	-	12,816	-
Restricted assets:				
Cash and cash equivalents in commercial banks	1,047,252	2,392	1,049,644	1,609,710
Cash and cash equivalents in governmental banks	1,386,384	111,197	1,497,581	545,081
Cash and cash equivalents in U.S. Treasury	-	382,883	382,883	-
Unemployment and other insurance premiums	-	68,582	68,582	-
Intergovernmental	-	71	71	-
Accrued interest	-	2,164	2,164	-
Receivables	-	4,608	4,608	-
Loans receivable from component units	-	450,044	450,044	-
Investments	1,077,601	34,538	1,112,139	5,129,887
Other	19,940	1,130	21,070	232,407
Long-term investments	-	-	-	5,641,741
Long-term receivables from:				
Loans	-	-	-	147,599
Other governmental entities	-	-	-	98,496
Other	-	-	-	109,706
Long-term amounts due from:				
Primary government	-	-	-	269,294
Component units	-	-	-	3,777,981
Real estate held for sale or future development	47,689	-	47,689	266,295
Capital assets:				
Land and other nondepreciable assets	2,365,952	-	2,365,952	7,026,540
Other capital assets — net of depreciation or amortization	5,779,848	1,726	5,781,574	23,414,007
Deferred outflows of resources	152,767	-	152,767	136,771
Deferred expenses and other assets	345,731	27,466	373,197	442,259
TOTAL ASSETS	15,048,278	1,276,323	16,324,601	60,304,097

(Continued)

COMMONWEALTH OF PUERTO RICO

STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total Primary Government	Component Units
LIABILITIES:				
Accounts payable and accrued liabilities	838,574	12,952	851,526	2,380,686
Deposits and escrow liabilities	-	-	-	6,943,361
Tax refunds payable	851,750	-	851,750	-
Due to:				
Primary government	-	-	-	114,884
Component units	603,309	-	603,309	560,200
Other governmental entities	7,448	47	7,495	324,385
Securities lending transactions and reverse repurchase agreements	-	-	-	1,101,469
Interest payable	716,597	-	716,597	610,206
Deferred revenue	319,604	25,284	344,888	140,943
Insurance benefits payable	-	72,994	72,994	-
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	559,294
Termination benefits payable	3,563	-	3,563	-
Bond anticipation notes payable	75,835	-	75,835	-
Due to primary government — long-term portion	-	-	-	450,392
Due to component units — long-term portion	-	-	-	3,568,932
Due to other governmental entities — long-term portion	-	-	-	113,528
Securities lending transactions and reverse repurchase agreements — long-term portion	-	-	-	19,000
Deferred revenue — long-term portion	-	-	-	1,095,940
Liability for automobile accident insurance, workmen compensation and medical claims — long-term portion	-	-	-	631,031
Hedging derivative instruments — interest rate swaps	152,767	-	152,767	336,084
Investment derivative instruments — interest rate swaps	72,206	-	72,206	-
Liabilities payable within one year:				
Bonds	468,485	-	468,485	1,075,028
Notes	132,619	-	132,619	1,209,468
Capital leases	9,500	-	9,500	755
Compensated absences	679,649	2,711	682,360	205,165
Lottery prizes	-	49,883	49,883	-
Voluntary termination benefits payable	63,918	587	64,505	24,323
Other long-term liabilities	572,915	-	572,915	85,830
Liabilities payable after one year:				
Commonwealth appropriation bonds	532,911	-	532,911	511,523
Bonds	32,723,509	-	32,723,509	21,751,281
Notes	1,500,183	-	1,500,183	6,351,334
Capital leases	214,935	-	214,935	30,128
Net pension obligation	11,158,801	-	11,158,801	-
Net postemployment benefit obligation	215,244	-	215,244	-
Compensated absences	696,321	2,257	698,578	371,152
Lottery prizes	-	141,703	141,703	-
Voluntary termination benefits payable	589,607	4,655	594,262	179,431
Other long-term liabilities	1,848,664	-	1,848,664	654,646
Total liabilities	55,048,914	313,073	55,361,987	51,400,399
NET ASSETS (DEFICIT):				
Invested in capital assets — net of related debt	3,473,838	1,726	3,475,564	8,239,104
Restricted for:				
Trust — nonexpendable	-	-	-	256,932
Capital projects	-	-	-	230,229
Debt service	2,053,235	-	2,053,235	1,004,582
Lending activities	-	564,875	564,875	-
Payment of insurance benefits	-	385,878	385,878	-
Affordable housing and related loan insurance programs	3,094	-	3,094	324,971
Student loans and other educational purposes	-	-	-	97,597
Net assets in liquidation	24,607	-	24,607	-
Other	192,163	-	192,163	153,753
Unrestricted net assets (deficit)	(45,747,573)	10,771	(45,736,802)	(1,403,470)
TOTAL NET ASSETS (DEFICIT)	$ (40,000,636)	$963,250	$ (39,037,386)	$ 8,903,698

See accompanying notes to basic financial statements. (Concluded)

COMMONWEALTH OF PUERTO RICO

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012
(In thousands)

		Program Revenues				Net (Expense) Revenue and Changes in Net Assets (Deficit)			
						Primary Government			
Functions	Expenses	Charges for Services	Operating Grants and Contributions	Earnings on Investments	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Units
PRIMARY GOVERNMENT:									
Governmental activities:									
General government	$ 3,989,149	$ 250,185	$ 260,959	$ -	$ -	$ (3,478,005)	$ -	$ (3,478,005)	$ -
Public safety	2,227,507	51,725	70,638	-	-	(2,105,144)	-	(2,105,144)	-
Health	2,926,901	142,808	1,708,749	-	-	(1,075,344)	-	(1,075,344)	-
Public housing and welfare	3,658,873	44,755	2,956,562	-	152,591	(504,965)	-	(504,965)	-
Education	4,729,574	1,542	1,380,181	-	-	(3,347,851)	-	(3,347,851)	-
Economic development	785,918	69,298	11,519	-	-	(705,101)	-	(705,101)	-
Payment of obligations of component units	458,207	-	-	-	-	(458,207)	-	(458,207)	-
Intergovernmental	374,127	-	143,079	-	-	(231,048)	-	(231,048)	-
Interest and other	1,957,885	-	-	-	-	(1,957,885)	-	(1,957,885)	-
Total governmental activities	21,108,141	560,313	6,531,687	-	152,591	(13,863,550)	-	(13,863,550)	-
Business-type activities:									
Unemployment insurance	486,342	281,763	306,604	-	-	-	102,025	102,025	-
Lotteries	722,620	909,893	-	-	-	-	187,273	187,273	-
Nonmajor proprietary funds	34,237	28,113	57,615	-	-	-	51,491	51,491	-
Total business-type activities	1,243,199	1,219,769	364,219	-	-	-	340,789	340,789	-
TOTAL PRIMARY GOVERNMENT	$22,351,340	$1,780,082	$6,895,906	$ -	$152,591	$ (13,863,550)	$340,789	$ (13,522,761)	$ -

(Continued)

COMMONWEALTH OF PUERTO RICO

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012
(In thousands)

		Program Revenues				Net (Expenses) Revenues and Changes in Net Assets (Deficit)			
						Primary Government			
Functions	Expenses	Charges for Services	Operating Grants and Contributions	Earnings on Investments	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Units
COMPONENT UNITS:									
Government Development Bank for Puerto Rico	$ 1,016,155	$ 776,157	$ 177,001	$ -	$ -	$ -	$ -	$ -	$ (62,997)
Puerto Rico Highways and Transportation Authority	1,268,088	232,137	-	-	306,518	-	-	-	(729,433)
Puerto Rico Electric Power Authority	5,454,523	5,046,494	-	-	37,494	-	-	-	(370,535)
Puerto Rico Aqueduct and Sewer Authority	1,131,699	742,891	-	-	48,327	-	-	-	(340,481)
University of Puerto Rico	1,398,103	236,224	187,989	465	-	-	-	-	(973,425)
Puerto Rico Health Insurance Administration	2,182,012	1,360,124	-	-	-	-	-	-	(821,888)
Nonmajor component units	2,794,012	1,688,354	51,941	91,710	18,826	-	-	-	(943,181)
TOTAL COMPONENT UNITS	$15,244,592	$ 10,082,381	$ 416,931	$92,175	$411,165	-	-	-	(4,241,940)
GENERAL REVENUES:									
Taxes:									
Income taxes						4,037,400	-	4,037,400	-
Sales and use tax						1,144,659	-	1,144,659	-
Excise taxes						2,695,543	-	2,695,543	318,310
Other taxes						151,102	-	151,102	-
Revenue from global tobacco settlement agreement						72,491	-	72,491	-
Revenue from State Insurance Fund Corporation						51,342	-	51,342	-
Revenue from Puerto Rico Tourism Company						23,631	-	23,631	-
Revenue from Governing Board of 9-1-1 Services						10,600	-	10,600	-
Grants and contributions not restricted to specific programs						-	-	-	179,408
Payments from primary government						-	-	-	2,738,213
Unrestricted investment earnings — net						(191,479)	12,029	(179,450)	241,597
Other						156,966	-	156,966	181,074
Transfers						219,794	(219,794)	-	-
Total general revenues and transfers						8,372,049	(207,765)	8,164,284	3,658,602
CHANGE IN NET ASSETS (DEFICIT)						(5,491,501)	133,024	(5,358,477)	(583,338)
NET ASSETS (DEFICIT) — Beginning of year (as restated) (Note 4)						(34,509,135)	830,226	(33,678,909)	9,487,036
NET ASSETS (DEFICIT) — End of year						$ (40,000,636)	$ 963,250	$ (39,037,386)	$ 8,903,698

See accompanying notes to basic financial statements.

(Concluded)

COMMONWEALTH OF PUERTO RICO

BALANCE SHEET — GOVERNMENTAL FUNDS
JUNE 30, 2012
(In thousands)

ASSETS	General	Pledged Sales and Use Tax	Debt Service	COFINA Special Revenue	COFINA Debt Service	Other Governmental	Total Governmental
CASH AND CASH EQUIVALENTS IN COMMERCIAL BANKS	$ 271,631	$ -	$ -	$ -	$ -	$ 122,429	$ 394,060
CASH AND CASH EQUIVALENTS IN GOVERNMENTAL BANKS	128,129	-	242,028	-	-	22,163	392,320
INVESTMENTS	-	-	-	-	-	23,268	23,268
RECEIVABLES:							
Income and excise taxes	1,232,925	-	-	-	-	-	1,232,925
Sales and use tax	-	102,879	-	-	-	-	102,879
Intergovernmental	312,258	-	32,242	-	-	-	344,500
Accounts	88,143	-	-	-	-	671	88,814
Loans	77,089	-	-	-	-	39	77,128
Accrued interest	39,108	-	559	-	-	443	40,110
Other	5	-	-	-	-	41,741	41,746
DUE FROM:							
Other funds	50,297	-	-	-	102,879	51,658	204,834
Component units	28,978	-	-	-	-	38,621	67,599
Other governmental entities	137	-	-	-	-	22,847	22,984
OTHER ASSETS	11,965	-	-	-	-	851	12,816
RESTRICTED ASSETS:							
Cash and cash equivalents in commercial banks	199,398	-	137	-	5	847,712	1,047,252
Cash and cash equivalents in governmental banks	168,439	-	902,553	5,394	20,070	289,928	1,386,384
Investments	325,374	-	-	51,674	590,098	110,455	1,077,601
Due from other funds	-	-	-	-	-	13,596	13,596
Other assets	19,200	-	-	-	740	-	19,940
REAL ESTATE HELD FOR SALE OR FUTURE DEVELOPMENT	42,752	-	-	-	-	4,937	47,689
TOTAL ASSETS	$ 2,995,828	$ 102,879	$ 1,177,519	$ 57,068	$ 713,792	$ 1,591,359	$ 6,638,445

(Continued)

COMMONWEALTH OF PUERTO RICO

BALANCE SHEET — GOVERNMENTAL FUNDS
JUNE 30, 2012
(In thousands)

	General	Pledged Sales and Use Tax	Debt Service	COFINA Special Revenue	COFINA Debt Service	Other Governmental	Total Governmental
LIABILITIES AND FUND BALANCES (DEFICIT)							
LIABILITIES:							
Accounts payable and accrued liabilities	$ 777,686	$ -	$ -	$ 37	$ -	$ 57,431	$ 835,154
Tax refunds payable	851,750	-	-	-	-	-	851,750
Due to:							
Other funds	150,944	102,879	-	-	-	1,684	255,507
Other governmental entities	7,448	-	-	-	-	-	7,448
Component units	420,742	-	-	-	-	2,924	423,666
Notes payable	16,884	-	-	-	-	-	16,884
Bond anticipation notes payable	-	-	-	-	-	75,835	75,835
Bonds payable	-	-	346,460	-	-	78,580	425,040
Interest payable	165,614	-	220,616	-	-	96,853	483,083
Deferred revenue	1,270,709	-	-	-	-	75,655	1,346,364
Termination benefits payable	3,563	-	-	-	-	-	3,563
Other liabilities	437,044	-	-	-	-	-	437,044
Total liabilities	4,102,384	102,879	567,076	37	-	388,962	5,161,338
FUND BALANCES (DEFICIT):							
Nonspendable	94,559	-	-	-	-	-	94,559
Spendable:							
Restricted	181,133	-	335,614	57,031	713,792	999,125	2,286,695
Committed	633,659	-	274,829	-	-	35,922	944,410
Assigned	22,056	-	-	-	-	165,742	187,798
Unassigned	(2,037,963)	-	-	-	-	1,608	(2,036,355)
Total fund balances (deficit)	(1,106,556)	-	610,443	57,031	713,792	1,202,397	1,477,107
TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)	$ 2,995,828	$ 102,879	$ 1,177,519	$ 57,068	$ 713,792	$ 1,591,359	$ 6,638,445

See accompanying notes to basic financial statements.

(Concluded)

COMMONWEALTH OF PUERTO RICO

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

TOTAL FUND BALANCE OF GOVERNMENTAL FUNDS	$ 1,477,107
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS (DEFICIT) ARE DIFFERENT THAN THE AMOUNTS REPORTED IN THE GOVERNMENTAL FUNDS BECAUSE:	
Inventories and prepaid expenses that are not reported in governmental funds and are reported in the statement of net assets (deficit)	21,042
Deferred outflows of resources	152,767
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	8,145,800
Deferred revenue reported in the governmental funds are recognized as revenue in the governmental activities	1,026,760
Debt issued by the Commonwealth have associated costs that are paid from current available resources in the funds. However, these costs are deferred in the statement of net assets (deficit)	345,731
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Accounts payable and accrued liabilities	(3,420)
Interest payable	(233,514)
Derivative instruments interest rate swaps	(224,973)
Commonwealth appropriation bonds	(532,911)
Bonds payable	(32,766,954)
Notes payable	(1,615,918)
Due to component unit	(179,643)
Capital leases payable	(224,435)
Net pension obligation	(11,158,801)
Net postemployment benefit obligation	(215,244)
Compensated absences	(1,375,970)
Voluntary termination benefits payable	(653,525)
Other long-term liabilities	(1,984,535)
TOTAL NET DEFICIT OF GOVERNMENTAL ACTIVITIES	$ (40,000,636)

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICIT) - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012
(In thousands)

	General	Pledged Sales and Use Tax	Debt Service	COFINA Special Revenue	COFINA Debt Service	Other Governmental	Total Governmental
REVENUES:							
Taxes:							
Income taxes	$ 4,068,802	$ -	$ -	$ -	$ -	$ -	$ 4,068,802
Sales and use tax	543,266	601,393	-	-	-	-	1,144,659
Excise taxes	2,695,543	-	-	-	-	-	2,695,543
Property taxes	66,375	-	-	-	-	-	66,375
Other taxes	90,514	-	-	-	-	-	90,514
Charges for services	624,069	-	-	-	-	-	624,069
Revenue from global tobacco settlement agreement	72,491	-	-	-	-	-	72,491
Revenues from component units	85,573	-	-	-	-	-	85,573
Intergovernmental	6,634,415	-	115,969	-	-	28,061	6,778,445
Interest and investment earnings	18,200	-	3,329	93	565	6,472	28,659
Other	145,409	-	-	-	-	11,547	156,956
Total revenues	15,044,657	601,393	119,298	93	565	46,080	15,812,086
EXPENDITURES:							
Current:							
General government	1,935,622	-	-	47	45	91,746	2,027,460
Public safety	2,315,808	-	-	-	-	3,832	2,319,640
Health	2,942,970	-	-	-	-	7,397	2,950,367
Public housing and welfare	3,399,071	-	-	-	-	6,950	3,406,021
Education	4,596,366	-	-	-	-	2,703	4,599,069
Economic development	578,374	-	-	-	-	205,116	783,490
Payment of obligations of component units	-	-	-	458,207	-	-	458,207
Intergovernmental	376,767	-	-	-	-	660	377,427
Capital outlays	131,488	-	-	-	-	426,889	558,377
Debt service:							
Principal	1,087,775	-	346,460	-	-	437,492	1,871,727
Interest	201,394	-	520,198	-	587,673	297,092	1,606,357
Other — debt issuance costs	4,876	-	34,350	-	14,499	23,720	77,445
Total expenditures	17,570,511	-	901,008	458,254	602,217	1,503,597	21,035,587
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(2,525,854)	601,393	(781,710)	(458,161)	(601,652)	(1,457,517)	(5,223,501)

(Continued)

COMMONWEALTH OF PUERTO RICO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICIT) — GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012
(In thousands)

	General	Pledged Sales and Use Tax	Debt Service	COFINA Special Revenue	COFINA Debt Service	Other Governmental	Total Governmental
OTHER FINANCING SOURCES (USES):							
Transfers in	$ 1,882,205	$ -	$ 770,399	$ 963,236	$ 601,393	$ 668,944	$ 4,886,177
Transfers out	(1,159,948)	(601,393)	(704,889)	(952,615)	(963,236)	(284,302)	(4,666,383)
Proceeds from long term debt issued	877,034	-	-	-	1,541,008	1,285,181	3,703,223
Issuance of refunding bonds	432,629	-	3,031,565	-	-	1,017,984	4,482,178
Payments to refunded bonds escrow agent	(369,395)	-	(1,835,425)	-	(110,749)	(506,719)	(2,822,288)
Sale of capital assets	1,434	-	-	-	-	-	1,434
Premium on bonds issued	5,729	-	729	-	35,351	1,079	42,888
Discount on bonds issued	-	-	(5,616)	-	(3,549)	(15,309)	(24,474)
Termination payments on swap agreements	-	-	(160,239)	-	(390,616)	-	(550,855)
Total other financing sources (uses)	1,669,688	(601,393)	1,096,524	10,621	709,602	2,166,858	5,051,900
NET CHANGE IN FUND BALANCES (DEFICIT)	(856,166)	-	314,814	(447,540)	107,950	709,341	(171,601)
FUND BALANCES (DEFICIT) — Beginning of of year, as restated	(250,390)	-	295,629	504,571	605,842	493,056	1,648,708
FUND BALANCES (DEFICIT) — End of year	$ (1,106,556)	$ -	$ 610,443	$ 57,031	$ 713,792	$ 1,202,397	$ 1,477,107

See accompanying notes to basic financial statements. (Concluded)

COMMONWEALTH OF PUERTO RICO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICIT) OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012
(In thousands)

NET CHANGE IN FUND BALANCES (DEFICIT) — Total governmental funds		$ (171,601)
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation and amortization expense. In the current period, these amounts are:		
Capital outlays	558,377	
Less: depreciation and amortization expense	(294,060)	264,317
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to decrease net assets.		(29,973)
The issuance of long-term debt (e.g. bonds, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items:		
Principal payments of long-term debt	1,871,727	
Proceeds from issuance of long-term debt	(3,703,223)	
Issuance of refunding bonds	(4,482,178)	
Payments to refunded bonds escrow agents	2,822,288	
Termination payments on swap agreement	550,855	
Other	(362,520)	(3,303,051)
Bond issuance costs are expenditures in governmental funds, but are deferred assets in the statement of net assets (deficit).		77,445
Some revenues in the statement of activities do not provide current financial resources, and therefore, are deferred in governmental funds. Also, revenues related to prior periods that became available during the current period are reported in governmental funds but are eliminated in the statement of activities. This amount is the net adjustment.		(195,102)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(1,889,569)
Changes in fair value of investment derivative instruments do not require the use of current financial resources and, therefore, are not reported as investment revenue in governmental funds. This amount is the net decrease in such fair value.		(229,319)
Generally, inventory and prepayments are recorded as expenditures in the governmental funds when purchased rather than capitalized as an asset. However, these assets are capitalized in the statement of net assets (deficit). This amount is the net decrease in total inventories and prepaid expenses.		(14,648)
CHANGE IN NET ASSETS (DEFICIT) OF GOVERNMENTAL ACTIVITIES		$ (5,491,501)

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

STATEMENT OF REVENUES AND EXPENDITURES — BUDGET AND ACTUAL —
BUDGET BASIS — GENERAL FUND
YEAR ENDED JUNE 30, 2012
(In thousands)

	Original Budget	Amended Budget	Actual
REVENUES:			
Income taxes	$ 4,647,000	$ 4,624,000	$ 4,527,049
Sales and use taxes	680,000	560,000	540,026
Excise taxes	2,501,000	2,707,000	2,792,846
Property taxes	76,000	40,000	65,497
Other taxes	84,000	81,000	82,578
Charges for services	92,000	104,000	179,962
Revenues from component units	24,000	24,000	19,557
Intergovernmental	271,000	299,000	265,910
Other	147,000	113,000	100,072
Total revenues	8,522,000	8,552,000	8,573,497
EXPENDITURES — Current:			
General government	1,565,969	1,731,262	1,957,580
Public safety	1,932,009	1,942,189	2,011,965
Health	1,293,083	1,391,501	1,686,402
Public housing and welfare	436,211	478,073	474,074
Education	3,083,560	2,970,371	2,926,638
Economic development	380,189	409,499	458,102
Intergovernmental	389,620	406,299	396,447
Total expenditures	9,080,641	9,329,194	9,911,208
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(558,641)	(777,194)	(1,337,711)
OTHER FINANCING SOURCES (USES):			
Notes payable issued	-	865,186	877,034
Transfer in from COFINA	610,000	617,038	952,615
Transfer in from Debt Service Fund and Lotteries Fund	128,000	98,000	863,546
Transfer out and other payments for debt service	(179,359)	(803,030)	(2,055,095)
Total other financing sources	558,641	777,194	638,100
DEFICIENCY OF REVENUES AND OTHER FINANCING SOURCES UNDER EXPENDITURES AND OTHER FINANCING USES	$ -	$ -	$ (699,611)

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

STATEMENT OF NET ASSETS (DEFICIT) — PROPRIETARY FUNDS
JUNE 30, 2012
(In thousands)

	Business-Type Activities — Enterprise Funds			
	Unemployment Insurance	Lotteries	Other Proprietary	Total Proprietary
ASSETS:				
Current assets:				
Cash and cash equivalents in commercial banks	$ -	$ 48,341	$ 83	$ 48,424
Cash and cash equivalents in governmental banks	-	26,300	63,845	90,145
Insurance premiums receivables — net	-	-	4,299	4,299
Accrued interest receivable	-	-	90	90
Other receivables	-	9,231	256	9,487
Restricted assets:				
Cash and cash equivalents in commercial banks	864	-	1,528	2,392
Cash and cash equivalents in governmental banks	-	-	111,197	111,197
Cash and cash equivalents in U.S. Treasury	382,883	-	-	382,883
Insurance premiums receivables — net	68,582	-	-	68,582
Intergovernmental receivable	71	-	-	71
Loans receivable from component unit	-	-	19,166	19,166
Accrued interest receivable	2,164	-	-	2,164
Receivables	37	-	4,571	4,608
Total current assets	454,601	83,872	205,035	743,508
Noncurrent assets:				
Loans receivable from component unit — restricted	-	-	430,878	430,878
Due from other funds	-	67,559	18,131	85,690
Restricted investments	-	-	34,538	34,538
Capital assets — net	-	1,726	-	1,726
Other noncurrent assets	-	27,466	-	27,466
Other restricted assets	-	-	1,130	1,130
Total assets	454,601	180,623	689,712	1,324,936
LIABILITIES AND NET ASSETS (DEFICIT):				
Current liabilities:				
Accounts payable and accrued liabilities	-	9,952	3,000	12,952
Due to other funds	20,630	27,180	803	48,613
Due to other governmental entities	-	-	47	47
Deferred revenue	11,285	11,837	2,162	25,284
Compensated absences	-	1,830	881	2,711
Lottery prizes	-	49,883	-	49,883
Voluntary termination benefits payable	-	587	-	587
Insurance benefits payable	72,161	-	833	72,994
Total current liabilities	104,076	101,269	7,726	213,071
Noncurrent liabilities:				
Lottery prizes, excluding current portion	-	141,703	-	141,703
Compensated absences, excluding current portion	-	934	1,323	2,257
Voluntary termination benefits payable	-	4,655	-	4,655
Total liabilities	104,076	248,561	9,049	361,686
NET ASSETS (DEFICIT):				
Invested in capital assets — net of related debt	-	1,726	-	1,726
Restricted for lending activities	-	-	564,875	564,875
Restricted for payment of insurance benefits	350,525	-	35,353	385,878
Unrestricted	-	(69,664)	80,435	10,771
TOTAL NET ASSETS (DEFICIT)	$350,525	$ (67,938)	$680,663	$ 963,250

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS (DEFICIT) — PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012
(In thousands)

	Business-Type Activities — Enterprise Funds			
	Unemployment Insurance	Lotteries	Other Proprietary	Total Proprietary
OPERATING REVENUES:				
Insurance premiums	$ 281,763	$ -	$ 19,521	$ 301,284
Lottery ticket sales	-	909,842	-	909,842
Interest	-	-	8,592	8,592
Other	-	51	-	51
Total operating revenues	281,763	909,893	28,113	1,219,769
OPERATING EXPENSES:				
Insurance benefits	486,342	-	4,037	490,379
Lottery prizes	-	576,372	-	576,372
General, administrative, and other operating expenses	-	146,248	16,619	162,867
Total operating expenses	486,342	722,620	20,656	1,229,618
OPERATING INCOME (LOSS)	(204,579)	187,273	7,457	(9,849)
NONOPERATING REVENUES (EXPENSES):				
Contributions from U.S. government	306,604	-	57,615	364,219
Contributions to component unit	-	-	(13,581)	(13,581)
Interest and investment earnings	10,357	229	1,443	12,029
Total nonoperating revenues	316,961	229	45,477	362,667
INCOME BEFORE TRANSFERS	112,382	187,502	52,934	352,818
TRANSFERS FROM OTHER FUNDS	-	-	4,907	4,907
TRANSFERS TO OTHER FUNDS	(57,584)	(165,142)	(1,975)	(224,701)
NET CHANGE IN NET ASSETS (DEFICIT)	54,798	22,360	55,866	133,024
NET ASSETS (DEFICIT) — Beginning of year	295,727	(90,298)	624,797	830,226
NET ASSETS (DEFICIT) — End of year	$ 350,525	$ (67,938)	$680,663	$ 963,250

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

STATEMENT OF CASH FLOWS — PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012
(In thousands)

	Business-Type Activities — Enterprise Funds			
	Unemployment Insurance	Lotteries	Other Proprietary	Total Proprietary
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers and users	$ 263,269	$ 883,217	$ 19,234	$1,165,720
Other receipts	-	51	-	51
Payments to suppliers	-	(38,967)	(7,604)	(46,571)
Payments to employees	-	(81,134)	(8,229)	(89,363)
Payments of lottery prizes	-	(600,224)	-	(600,224)
Payments of insurance benefits	(499,963)	-	(3,758)	(503,721)
Other payments	-	-	(624)	(624)
Net cash provided by (used in) operating activities	(236,694)	162,943	(981)	(74,732)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Intergovernmental grants and contributions	307,380	-	57,530	364,910
Net increase in due from other funds	-	(14,384)	-	(14,384)
Contributions to component unit	-	-	(13,581)	(13,581)
Transfers from other funds	-	-	4,907	4,907
Transfers to other funds	(53,683)	(158,657)	(1,975)	(214,315)
Net cash provided by (used in) noncapital financing activities	253,697	(173,041)	46,881	127,537
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES — Capital expenditures	-	(136)	-	(136)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest collected on deposits, investments and loans	10,356	229	9,720	20,305
Loans originated	-	-	(55,655)	(55,655)
Principal collected on loans	-	-	21,678	21,678
Proceeds from sales and maturities of investments	-	-	20,945	20,945
Purchases of investments	-	-	(20,198)	(20,198)
Net cash provided by (used in) investing activities	10,356	229	(23,510)	(12,925)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	27,359	(10,005)	22,390	39,744
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	356,388	84,646	154,263	595,297
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 383,747	$ 74,641	$176,653	$ 635,041

(Continued)

COMMONWEALTH OF PUERTO RICO

STATEMENT OF CASH FLOWS — PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012
(In thousands)

	Business-Type Activities — Enterprise Funds			
	Unemployment Insurance	Lotteries	Other Proprietary	Total Proprietary
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:				
Operating income (loss)	$(204,579)	$ 187,273	$ 7,457	$ (9,849)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Interests earned on deposits, loans and investments	-	-	(8,592)	(8,592)
Depreciation	-	70	-	70
Changes in operating assets and liabilities:				
Increase in accounts and loans receivable	(19,265)	(3,645)	(381)	(23,291)
Decrease in other assets	-	3,038	393	3,431
Increase in accounts payable and accrued liabilities	-	811	349	1,160
Decrease in due to other governmental entities	-	-	(671)	(671)
Decrease in obligation for unpaid lottery awards	-	(26,900)	-	(26,900)
Increase (decrease) in deferred revenues	772	(369)	94	497
Increase in compensated absences	-	64	92	156
Increase in termination benefits payable	-	2,601	-	2,601
Increase (decrease) in liability for insurance benefits payable	(13,622)	-	278	(13,344)
Total adjustments	(32,115)	(24,330)	(8,438)	(64,883)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$(236,694)	$ 162,943	$ (981)	$ (74,732)

See accompanying notes to basic financial statements. (Concluded)

COMMONWEALTH OF PUERTO RICO

STATEMENT OF FIDUCIARY NET ASSETS — FIDUCIARY FUNDS
JUNE 30, 2012
(In thousands)

	Pension Trust	Agency
ASSETS:		
Cash and cash equivalents in commercial banks — Unrestricted	$ 642,978	$ 698,972
Cash and cash equivalents in governmental banks:		
Unrestricted	189,528	546,931
Restricted	233,931	-
Collateral for securities lending transactions	76,486	-
Investments:		
Debt and equity securities — at fair value	3,870,788	-
Other	76,591	-
Receivables — net:		
Accounts	124,672	-
Loans and advances	1,359,340	-
Accrued interests and dividends	20,902	-
Other	174,167	5,252
Capital assets — net	32,553	-
Other assets	37,283	-
Total assets	6,839,219	1,251,155
LIABILITIES:		
Accounts payable and accrued liabilities	297,125	1,251,155
Securities lending transactions	76,486	-
Interest payable	13,877	-
Other liabilities	29,802	-
Bonds payable	3,026,593	-
Total liabilities	3,443,883	1,251,155
NET ASSETS — Held in trust for pension benefits	$ 3,395,336	$ -

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS — PENSION TRUST FUNDS
YEAR ENDED JUNE 30, 2012
(In thousands)

ADDITIONS:	
Contributions:	
Sponsor	$ 522,617
Participants	442,370
Special	246,481
Total contributions	1,211,468
Investment income and investment expense:	
Interest	234,559
Dividends	6,444
Net change in fair value of investments	79,395
Investment expenses	(9,145)
Net investment income	311,253
Other income	26,119
Total additions	1,548,840
DEDUCTIONS:	
Pension and other benefits	1,993,514
Refunds of contributions	57,448
General and administrative	85,454
Interest on bonds payable	190,737
Total deductions	2,327,153
NET CHANGE IN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	(778,313)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:	
Beginning of year	4,173,649
End of year	$ 3,395,336

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF NET ASSETS (DEFICIT) — MAJOR COMPONENT UNITS
JUNE 30, 2012
(In thousands)

	Major Component Units								
ASSETS	Government Development Bank for Puerto Rico	Puerto Rico Highways and Transportation Authority	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority	University of Puerto Rico	Puerto Rico Health Insurance Administration	Major Component Units Totals	Nonmajor Component Units Totals	All Component Units Totals
CURRENT ASSETS:									
Cash and cash equivalents in commercial banks	$ 1,184,517	$ 19,519	$ 139,350	$ 62,060	$ 45,596	$ 26,730	$ 1,477,772	$ 204,693	$ 1,682,465
Cash and cash equivalents in governmental banks	73,100	5,267	60,411	-	57,910	194,689	391,377	165,535	556,912
Investments	551,155	-	-	-	80,135	-	631,290	883,240	1,514,530
Restricted assets:									
Cash and cash equivalents in commercial banks	94,931	-	-	-	12,056	-	106,987	141,590	248,577
Cash and cash equivalents in governmental banks	-	-	-	-	-	1,321	1,321	215,434	216,755
Investments	228,666	-	-	-	69,709	-	298,375	292,089	590,464
Other restricted assets	2,689	-	-	-	-	-	2,689	28,221	30,910
Collateral from securities lending transactions	-	-	-	-	-	-	-	112,060	112,060
Receivables — net:									
Insurance premiums	-	-	-	-	-	-	-	46,199	46,199
Intergovernmental	-	-	-	2,883	20,222	-	23,105	29,924	53,029
Accounts	-	4,998	809,712	93,983	47,719	19,227	975,639	90,246	1,065,885
Loans and advances	4,437,900	-	-	-	-	-	4,437,900	104,178	4,542,078
Accrued interest	132,508	-	-	-	-	-	132,508	27,913	160,421
Other governmental entities	-	4,299	276,982	49,722	15,912	12,831	359,746	90,075	449,821
Other	-	-	-	-	13,026	-	13,026	21,778	34,804
Due from:									
Primary government	-	-	50,242	67,586	45,122	115,180	278,130	86,878	365,008
Component units	125,947	14,142	122,846	14,109	27,494	-	304,538	46,613	351,151
Inventories	-	-	423,068	21,357	4,319	-	448,744	19,521	468,265
Prepaid expenses	-	14,860	55	7,289	706	1,878	24,788	28,907	53,695
Total current assets	6,831,413	63,085	1,882,666	318,989	439,926	371,856	9,907,935	2,635,094	12,543,029

(Continued)

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF NET ASSETS (DEFICIT) — MAJOR COMPONENT UNITS
JUNE 30, 2012
(In thousands)

	Major Component Units								
ASSETS	Government Development Bank for Puerto Rico	Puerto Rico Highways and Transportation Authority	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority	University of Puerto Rico	Puerto Rico Health Insurance Administration	Major Component Units Totals	Nonmajor Component Units Totals	All Component Units Totals
NONCURRENT ASSETS:									
Restricted assets:									
Cash and cash equivalents in commercial banks	-	387	615,263	695,070	3,928	-	1,314,648	46,485	1,361,133
Cash and cash equivalents in governmental banks	-	129,631	-	160,632	-	-	290,263	38,063	328,326
Investments	1,201,992	610,379	655,547	-	88,120	-	2,556,038	1,983,385	4,539,423
Other restricted assets	67,983	34,155	-	-	-	-	102,138	99,359	201,497
Investments	3,601,202	-	-	-	-	-	3,601,202	2,040,539	5,641,741
Receivables:									
Loans, interest, and other	-	-	-	-	3,939	-	3,939	143,660	147,599
Other governmental entities	15,231	-	-	-	63,514	-	78,745	19,751	98,496
Other	-	-	104,780	-	-	-	104,780	4,926	109,706
Due from:									
Primary government	62,045	-	-	-	11,720	-	73,765	195,529	269,294
Component units	3,745,326	-	-	-	-	-	3,745,326	32,655	3,777,981
Deferred outflows of resources	-	25,464	111,307	-	-	-	136,771	-	136,771
Deferred expenses and other assets	52,067	83,883	85,113	64,127	72,473	-	357,663	84,596	442,259
Real estate held for sale or future development	106,122	-	-	-	-	-	106,122	160,173	266,295
Capital assets, not being depreciated	85,016	2,442,365	981,111	1,717,536	110,108	-	5,336,136	1,690,404	7,026,540
Capital assets, depreciable — net	11,203	8,683,100	5,818,065	5,641,266	848,802	148	21,002,584	2,411,423	23,414,007
Total noncurrent assets	8,948,187	12,009,364	8,371,186	8,278,631	1,202,604	148	38,810,120	8,950,948	47,761,068
TOTAL	15,779,600	12,072,449	10,253,852	8,597,620	1,642,530	372,004	48,718,055	11,586,042	60,304,097

(Continued)

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF NET ASSETS (DEFICIT) — MAJOR COMPONENT UNITS
JUNE 30, 2012
(In thousands)

	Major Component Units								
LIABILITIES AND NET ASSETS (DEFICIT)	**Government Development Bank for Puerto Rico**	**Puerto Rico Highways and Transportation Authority**	**Puerto Rico Electric Power Authority**	**Puerto Rico Aqueduct and Sewer Authority**	**University of Puerto Rico**	**Puerto Rico Health Insurance Administration**	**Major Component Units Totals**	**Nonmajor Component Units Totals**	**All Component Units Totals**
LIABILITIES:									
Current liabilities:									
Accounts payable and accrued liabilities	184,050	219,274	747,015	239,072	88,438	75,321	1,553,170	827,516	2,380,686
Deposits and escrow liabilities	5,691,792	-	49,780	6,408	68	-	5,748,048	619,236	6,367,284
Due to:									
Primary government	-	6,857	-	19,658	-	7,239	33,754	81,130	114,884
Component units	-	17,863	49,781	32,253	33,295	-	133,192	427,008	560,200
Other governmental entities	-	835	208,800	14,029	19,852	-	243,516	80,869	324,385
Securities lending transactions and reverse repurchase agreements	884,484	-	-	-	-	-	884,484	216,985	1,101,469
Interest payable	48,925	157,026	185,757	88,606	4,424	-	484,738	113,022	597,760
Deferred revenue	-	28,404	-	19,930	-	-	48,334	92,609	140,943
Notes payable, current portion	570,515	-	555,438	-	1,336	-	1,127,289	82,179	1,209,468
Bonds payable, current portion	33,880	104,125	379,975	15,923	31,790	-	565,693	509,335	1,075,028
Accrued compensated absences, current portion	4,421	11,155	82,849	12,704	35,861	544	147,534	57,631	205,165
Voluntary termination benefits payable	8,300	-	-	-	-	245	8,545	15,778	24,323
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	-	-	213,173	213,173	346,121	559,294
Capital leases	-	-	-	-	-	-	-	755	755
Current portion of other long-term liabilities	14,537	-	51,546	8,674	2,107	-	76,864	8,966	85,830
Total current liabilities	7,440,904	545,539	2,310,941	457,257	217,171	296,522	11,268,334	3,479,140	14,747,474

(Continued)

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF NET ASSETS (DEFICIT) — MAJOR COMPONENT UNITS
JUNE 30, 2012
(In thousands)

	Major Component Units								
LIABILITIES AND NET ASSETS (DEFICIT)	Government Development Bank for Puerto Rico	Puerto Rico Highways and Transportation Authority	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority	University of Puerto Rico	Puerto Rico Health Insurance Administration	Major Component Units Totals	Nonmajor Component Units Totals	All Component Units Totals
Noncurrent liabilities:									
Due to:									
Primary government	-	-	-	430,386	-	-	430,386	20,006	450,392
Component units	-	1,881,963	-	109,788	88,058	171,080	2,250,889	1,318,043	3,568,932
Other governmental entities	-	-	-	-	63,220	-	63,220	50,308	113,528
Deposits and escrow liabilities	375,142	-	126,367	74,568	-	-	576,077	-	576,077
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-	-	-	19,000	19,000
Interest payable	-	-	-	-	-	12,446	12,446	-	12,446
Deferred revenue	-	1,086,453	-	-	-	-	1,086,453	9,487	1,095,940
Notes payable	4,779,849	-	18,593	-	2,268	-	4,800,710	1,550,624	6,351,334
Commonwealth appropriation bonds	3,427	-	-	398,049	-	-	401,476	110,047	511,523
Bonds payable	573,886	4,788,877	7,931,714	4,081,226	582,659	-	17,958,362	3,792,919	21,751,281
Accrued compensated absences	698	11,657	139,904	32,567	132,012	363	317,201	53,951	371,152
Voluntary termination benefits payable	-	81,902	-	-	-	2,491	84,393	95,038	179,431
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	-	-	-	-	631,031	631,031
Capital leases	-	-	-	-	-	-	-	30,128	30,128
Hedging derivative instruments — interest rate swaps	-	224,777	111,307	-	-	-	336,084	-	336,084
Other long-term liabilities	84,549	70,873	130,712	14,864	98,522	43,082	442,602	212,044	654,646
Total noncurrent liabilities	5,817,551	8,146,502	8,458,597	5,141,448	966,739	229,462	28,760,299	7,892,626	36,652,925
Total liabilities	13,258,455	8,692,041	10,769,538	5,598,705	1,183,910	525,984	40,028,633	11,371,766	51,400,399
NET ASSETS (DEFICIT):									
Invested in capital assets — net of related debt	96,219	2,858,059	38,122	3,205,651	352,904	148	6,551,103	1,688,001	8,239,104
Restricted for:									
Trust — nonexpendable	-	-	-	-	-	-	-	256,932	256,932
Capital projects	-	64,890	18,299	-	1,432	-	84,621	145,608	230,229
Debt service	-	552,637	-	-	60,777	-	613,414	391,168	1,004,582
Affordable housing and related loan insurance programs	216,693	-	-	-	-	-	216,693	108,278	324,971
Student loans and other educational purposes	-	-	-	-	86,783	-	86,783	10,814	97,597
Other specified purposes	-	-	-	26,186	11,610	-	37,796	115,957	153,753
Unrestricted	2,208,233	(95,178)	(572,107)	(232,922)	(54,886)	(154,128)	1,099,012	(2,502,482)	(1,403,470)
TOTAL NET ASSETS (DEFICIT)	$ 2,521,145	$ 3,380,408	$ (515,686)	$2,998,915	$ 458,620	$(153,980)	$ 8,689,422	$ 214,276	$ 8,903,698

See accompanying notes to basic financial statements.

(Concluded)

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF ACTIVITIES — MAJOR COMPONENT UNITS
YEAR ENDED JUNE 30, 2012
(In thousands)

		Program Revenues					General Revenues and Transfers								
	Expenses	Charges for Services	Operating Grants and Contributions	Earnings on Investments	Capital Grants and Contributions	Net Revenues (Expenses) and Changes in Net Assets (Deficit)	Payments From Primary Government	Payments from (to) Other Component Units	Grants and Contributions Not Restricted to Specific Programs	Excise Taxes	Interest and Investment Earnings	Other	Change in Net Assets (Deficit)	Net Assets (Deficit), Beginning of Year (As Restated)	Net Assets (Deficit), End of Year
Major component units:															
Government Development Bank for Puerto Rico	$ 1,016,155	$ 776,157	$177,001	$ -	$ -	$ (62,997)	$ -	$ -	$ -	$ -	$ -	$ -	$ (62,997)	$ 2,584,142	$ 2,521,145
Puerto Rico Highways and Transportation Authority	1,268,088	232,137	-	-	306,518	(729,433)	-	-	-	259,842	24,056	82,997	(362,538)	3,742,946	3,380,408
Puerto Rico Electric Power Authority	5,454,523	5,046,494	-	-	37,494	(370,535)	-	-	-	-	24,344	-	(346,191)	(169,495)	(515,686)
Puerto Rico Aqueduct and Sewer Authority	1,131,699	742,891	-	-	48,327	(340,481)	393,650	-	-	-	4,670	6,664	64,503	2,934,412	2,998,915
University of Puerto Rico	1,398,103	236,224	187,989	465	-	(973,425)	763,469	70,891	174,139	-	2,808	48,391	86,273	372,347	458,620
Puerto Rico Health Insurance Administration	2,182,012	1,360,124	-	-	-	(821,888)	945,033	-	-	-	1,203	-	124,348	(278,328)	(153,980)
Nonmajor component units	2,794,012	1,688,354	51,941	91,710	18,826	(943,181)	636,061	(70,891)	5,269	58,468	184,516	43,022	(86,736)	301,012	214,276
	$ 15,244,592	$ 10,082,381	$416,931	$ 92,175	$411,165	$ (4,241,940)	$ 2,738,213	$ -	$179,408	$318,310	$241,597	$181,074	$ (583,338)	$ 9,487,036	$ 8,903,698

See accompanying notes to basic financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Commonwealth of Puerto Rico (the "Commonwealth") was constituted on July 25, 1952, under the provisions of the Commonwealth's Constitution (the "Constitution") as approved by the people of Puerto Rico and the U.S. Congress. The Constitution provides for the separation of powers of the executive, legislative, and judicial branches of the government. The Commonwealth assumes responsibility for general government, public safety, health, public housing and welfare, education, and economic development.

The accompanying basic financial statements of the Commonwealth are presented in conformity with Accounting Principles Generally Accepted in the United States of America (US GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB).

The accompanying basic financial statements present the financial position of the Commonwealth and its various funds, the results of operations of the Commonwealth and its various funds and fund types, and the cash flows of the proprietary funds. The basic financial statements are presented as of June 30, 2012 and for the year then ended. The basic financial statements include the various departments, agencies, boards, commissions, public trusts and public corporations, and any other organizational units governed by the Puerto Rico Legislature and/or officers of the Commonwealth.

(a) Financial Reporting Entity

The basic financial statements of the Commonwealth include all departments, agencies, and governmental entities whose funds are under the custody and control of the Secretary of the Treasury of the Commonwealth and the Commonwealth's component units pursuant to Act No. 230 of July 23, 1974, as amended, known as Commonwealth of Puerto Rico Accounting Law. The Commonwealth has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Commonwealth are such that exclusion would cause the Commonwealth's basic financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include: (i) appointing a voting majority of an organization's governing body and the ability of the Commonwealth to impose its will on that organization or (ii) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Commonwealth.

As required by US GAAP, these basic financial statements present the Commonwealth and its component units.

(b) Component Units

Component units are entities that are legally separate organizations for which the Commonwealth's elected officials are financially accountable or other organizations for which the nature and significance of their relationship with the Commonwealth are such that exclusion would cause the Commonwealth's basic financial statements to be misleading or incomplete. US GAAP details two methods of presentation: (i) blending the financial data of the component units' balances and

transactions in a manner similar to the presentation of the Commonwealth's balances and transactions; or (ii) discrete presentation of the component units' financial data in columns separate from the Commonwealth's balances and transactions. The Commonwealth is financially accountable because it appoints the members of the governing authorities of each of the component units and because it is able to impose its will on these organizations or because the organizations provide specific financial benefits or impose specific financial burdens on the Commonwealth. The financial statements of the component units discussed below have been included in the financial reporting entity either as blended component units or as discretely presented component units in accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

Blended Component Units — The following entities, while legally separate from the Commonwealth, meet the criteria to be reported as part of the primary government because they provide services entirely or almost entirely to the Commonwealth.

Public Buildings Authority (PBA) — PBA is governed by a seven member board comprised by the Secretary of the Department of Transportation and Public Works (DTPW), the Secretary of the Department of Education of the Commonwealth, the President of the Government Development Bank for Puerto Rico (GDB), and four members appointed by the Governor of Puerto Rico with the advice and consent of the Senate. It is a legally separate entity, whose activities are blended within the primary government because it exists to construct, purchase, or lease office, school, health, correctional, social welfare, and other facilities for lease to the Commonwealth's departments, component units, and instrumentalities. Bonds issued by PBA to finance such facilities are payable from lease collections, which are largely derived from Commonwealth appropriations and are further secured by the Commonwealth's guaranty.

Puerto Rico Maritime Shipping Authority (PRMSA) — PRMSA is governed by the President of GDB. The operations of PRMSA consist of servicing the long-term liability to third parties that resulted from the sale of certain maritime operations formerly owned and operated by PRMSA. The Commonwealth is required to annually appropriate funds in its general operating budget to provide for the payment of principal and interest on such debt.

Puerto Rico Sales Tax Financing Corporation (Known as" COFINA" by its Spanish Acronym) — COFINA was created under Act No. 91 of the Legislative Assembly of the Commonwealth, approved on May 13, 2006, as amended by Act No. 291, approved on December 26, 2006; Act No. 56, approved on July 6, 2007; Act No. 1, approved on January 14, 2009; Act No. 7, approved on March 9, 2009 ("Act 7"); and Act No. 18, approved on May 22, 2009 (collectively, "Act 91"). COFINA was originally created for the purpose of financing the payment, retirement or defeasance of certain debt obligations of the Commonwealth outstanding at June 30, 2006 (the "2006 Appropriation Debt"). The members of the board of directors of COFINA are the same as the ones of GDB.

During 2009, the Commonwealth's Legislative Assembly expanded the purposes of COFINA and increased COFINA's dedicated revenues from 1% to 2.75% (out of total sales tax of 5.5%) the portion of the Commonwealth sales tax transferred to COFINA. COFINA is authorized to pay or finance, in whole or in part, or fund, in addition to the 2006 Appropriation Debt: (i) the debt of the Secretary of the Treasury of the Commonwealth with GDB in the amount of approximately $1 billion, a portion of the proceeds of which were used to cover the budgetary deficit of the Commonwealth for fiscal year 2009, (ii) certain financing granted to the Secretary of the Treasury by GDB payable from future Commonwealth general obligation bonds, and any debt of the Commonwealth outstanding as of December 31, 2008 that did not have a source of repayment or

was payable from budgetary appropriations (iii) a portion of the accounts payable to suppliers of the Commonwealth, (iv) operational expenses of the Commonwealth for fiscal years 2009, 2010, and 2011, (v) operational expenses of the Commonwealth for fiscal year 2012, to the extent included in the annual budget of the Commonwealth, (vi) the Puerto Rico Economic Stimulus Fund, (vii) the Commonwealth Emergency Fund in order to cover expenses resulting from catastrophic events such as hurricanes or floods, and (viii) the Economic Cooperation and Public Employees Alternatives Fund (all such uses, together with the 2006 Appropriation Debt, the "Authorized Uses").

The Children's Trust — The Children's Trust is governed by a seven member board comprised by the Governor, who designates the president of the board, the President of GDB, the Director of the Office of Management and Budget (OMB) of the Commonwealth, the Secretary of Justice of the Commonwealth, and three private citizens appointed by the Governor with the advice and consent of the Senate. The Children's Trust's sole operation consists of providing financial assistance principally to the Commonwealth's departments to carry out projects aimed at promoting the well-being of families, children and youth of Puerto Rico, especially in the areas of education, recreation, and health. The operation of the Children's Trust is financed with the moneys being received by the Commonwealth from a global settlement agreement (GSA) dated November 23, 1998 between certain tobacco companies and certain states, territories, and other jurisdictions of the United States of America, including the Commonwealth. The GSA calls for annual payments through the year 2025, which will vary due to inflationary and volume adjustments. After 2025, the tobacco companies shall continue making contributions in perpetuity.

The blended component units are composed of various funds. COFINA debt service fund and the special revenue fund are presented as major governmental funds. All other funds are reported in the other governmental funds column. Complete financial statements of the blended component units can be obtained directly by contacting their respective administrative offices at:

Public Buildings Authority
P.O. Box 41029 — Minillas Station
San Juan, PR 00940-1029

Puerto Rico Maritime
Shipping Authority
P.O. Box 42001
San Juan, PR 00940-2001

The Children's Trust
P.O. Box 42001
San Juan, PR 00940-2001

Puerto Rico Sales Tax Financing
Corporation
P.O. Box 42001
San Juan PR 00940-2001

Discretely Presented Component Units — The following component units, consistent with GASB Statement No. 14, as amended by GASB Statement No. 39, are discretely presented in the basic financial statements because of the nature of the services they provide, the Commonwealth's ability to impose its will, principally through the appointment of their governing authorities, and because the component units provide specific financial benefits to, or impose financial burdens on, the Commonwealth. These have been classified by management between major and nonmajor component units. A major discretely presented component unit is defined as a component unit that meets ten percent (10%) or more of total assets, liabilities, net assets, revenue or expenses of all discretely presented component units. The determination of a major component unit also depends on each component unit's significance relative to the other component units and the nature and significance of its relationship to the primary government. If a component unit is expected to meet the minimum criteria for inclusion as major component unit in a future year, the Commonwealth may elect to report as a major component unit.

Major Component Units:

Government Development Bank for Puerto Rico (GDB) — GDB is governed by a seven member board appointed by the Governor. GDB acts as fiscal agent, depository of funds, disbursing agent, investor and financial advisor for the Commonwealth, its public corporations, and municipalities in connection with the issuance of bonds and notes; and it also makes loans and advances funds predominantly to the Commonwealth's departments, component units, and municipalities. GDB's boards of directors' members are executives on a trustworthy position, named and supervised by the Governor.

Puerto Rico Aqueduct and Sewer Authority (PRASA) — PRASA is governed by a nine member board comprising five members appointed by the Governor with the advice and consent of the Senate, the Executive President of Puerto Rico Electric Power Authority, the President of the Puerto Rico Planning Board, the Executive Director of Mayors' Federation, and the Executive Director of Mayors' Association. PRASA owns and operates the Commonwealth's system of public water supply and sanitary sewer facilities. PRASA is authorized, among other things, to borrow money and issue revenue bonds for any of its corporate purposes. The Commonwealth guarantees the principal and interest payments of certain outstanding bonds and of all future bonds issued to refinance those outstanding bonds at the date of refinancing. Act No. 45 of July 28, 1994 was later amended to include other loans under the State Revolving Fund Program (SRFP). The Commonwealth provides financial support to PRASA through legislative appropriations.

Puerto Rico Electric Power Authority (PREPA) — PREPA is governed by a nine member board comprising the Secretary of the Department of Transportation and Public Works (DTPW), and six members appointed by the Governor with the advice and consent of the Senate, and two members representing the consumers' interest elected in a referendum carried out by the Puerto Rico Consumer Affairs Department. Board members are appointed or elected for a period of four years. PREPA is responsible for conserving, developing, and utilizing the power resources in order to promote the general welfare of Puerto Rico and owns and operates the Commonwealth's electrical power generation, transmission, and distribution system. The Commonwealth provides financial support to PREPA through legislative appropriations.

Puerto Rico Health Insurance Administration (PRHIA) — PRHIA is governed by a Board of Directors, which, by law, is composed of nine members (four compulsory members and five discretionary members). The compulsory members are the Secretary of Health of the Commonwealth, the Secretary of the Treasury of the Commonwealth, the Insurance Commissioner of Puerto Rico, and the Administrator of the Administration of Services of Mental Health and Addiction. The five discretionary members are appointed by the Governor, with the advice and consent of the Senate. PRHIA was created for implementing, administering, and negotiating a health insurance system through contracts with insurance underwriters to provide quality medical and hospital care to low income individuals, employees of the Commonwealth and policemen who voluntarily subscribe to the Puerto Rico health insurance medical plan. The board of directors' president is designated by the Governor and all discretionary board members are executives on a trustworthy position. The Commonwealth provides financial support to PRHIA through legislative appropriations.

Puerto Rico Highways and Transportation Authority (PRHTA) — PRHTA is governed by the Secretary of DTPW. PRHTA has broad powers to carry out its responsibilities in accordance with DTPW's overall transportation policies. These powers include, among other things, the complete control and supervision of any highway facilities constructed, owned, or operated by PRHTA, the ability to set tolls for the use of the highway facilities, and the power to issue bonds, notes, or other

obligations. PRHTA plans and manages the construction of all major projects relating to the Commonwealth's toll highway system, undertakes major repairs, and maintains the toll ways. The Commonwealth has the ability to significantly influence the toll rates charged by PRHTA.

University of Puerto Rico (UPR) — UPR is governed by a seventeen member board of trustees comprising one full time student; two permanent professors, and fourteen citizens from the community sector, of which at least one must be graduated from the institution. Community members are designated by the Governor with the advice and consent of the Senate. Members designated by the Governor are appointed for a period of six years. The terms for the student and professors are one year. The Commonwealth provides financial support to UPR through legislative appropriations.

Nonmajor Component Units:

Agricultural Enterprises Development Administration (AEDA) — AEDA is governed by the Secretary of Agriculture of the Commonwealth. The purpose of AEDA is to provide a wide variety of services and incentives to the agricultural sector. The Commonwealth has the ability to impose its will on AEDA. The Commonwealth provides financial support to AEDA through legislative appropriations.

Automobile Accidents Compensation Administration (AACA) — AACA is governed by a Cabinet Member, and a four member board appointed by the Governor with the advice and consent of the Senate. AACA operates a system of compulsory insurance coverage for all registered motor vehicles and compensates citizens for injuries arising from motor vehicle accidents. The Commonwealth has the ability to significantly influence rates charged by AACA. The Commonwealth has access to AACA's resources.

Cardiovascular Center Corporation of Puerto Rico and the Caribbean (CCCPRC) — CCCPRC is governed by a seven member board comprising of the Secretary of Health of the Commonwealth, the Director of the Medical Sciences Campus of the UPR, the Executive Director of the Puerto Rico Medical Services Administration, and four additional members appointed by the Governor with the advice and consent of the Senate, one of which should be from the Cardiology Society of Puerto Rico and another a member of a cardiology foundation properly registered in the Department of State of the Commonwealth. The purpose of the CCCPRC is to provide special treatment to patients suffering from cardiovascular diseases. The Commonwealth provides financial support to CCCPRC through legislative appropriations.

Company for the Integral Development of the "Península de Cantera" (CIDPC) — CIDPC is governed by an eleven member board, of which six members are appointed by the Governor and five members appointed by the Mayor of the Municipality of San Juan. CIDPC was created to establish and implement a comprehensive development plan for the Península de Cantera area. Its main function is to supervise and coordinate governmental efforts and also promote and manage private sector initiatives for the improvements and rehabilitation of the aforementioned area.

Corporation for the "Caño Martín Peña" ENLACE Project (CPECMP) — CPECMP was created for the purpose of coordinate the public policy related to the rehabilitation of the Caño Martín Peña area. CPECMP is governed by a board of directors of thirteen members of which seven members are appointed by the Governor and six members appointed by the Mayor of the Municipality of San Juan.

Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico (CDASFIPR) — CDASFIPR was created for the development of the arts and the film industry in Puerto Rico and is governed by a seven member board comprising of the Secretary of Economic Development and Commerce, who is the president, the President of the Puerto Rico Public Broadcasting Corporation, the Secretary of Treasury, the Executive Director the Puerto Rico Institute of Culture and three additional members appointed by the Governor with the advice and consent of the Senate.

Culebra Conservation and Development Authority (CCDA) — CCDA was created to formulate and administer the program and plan for the conservation, use, and development of natural resources of the municipality of Culebra. CCDA is administered through a board of directors composed of seven members, including the Mayor of the municipality of Culebra and six additional members appointed by the Mayor of the Municipality of Culebra and confirmed by the municipal legislature. The administration and operations of the CCDA are conducted by an executive director elected by the board of directors. The Commonwealth provides financial support to CCDA through legislative appropriations.

Economic Development Bank for Puerto Rico (EDB) — EDB is governed by nine members board comprising the President of GDB, who is the Chairman, the Secretary of Agriculture of the Commonwealth, the Secretary of the Department of Economic Development and Commerce of the Commonwealth, the Executive Director of the Puerto Rico Industrial Development Company, the Executive Director of the Puerto Rico Tourism Company, and four members representing the private sector and appointed by the Governor with the advice and consent of the Senate. Private sector members are appointed for a maximum period of three years. EDB is responsible for the promotion and development of the private sector economy of the Commonwealth. This purpose is to be met by granting direct loans, loan guarantees, loan participation, and/or direct investments to any person or business organization devoted to manufacturing, agriculture, trade, tourism, or other service enterprises with preference, but not limited, to economic activities that may have the effect of substituting imports. The Commonwealth has the ability to impose its will on EDB.

Employment and Training Enterprises Corporation (ETEC) — ETEC is governed by an eleven member consulting board, which includes two private citizens appointed by the Governor with the consent of the Senate. The purpose of ETEC is to provide training for management, business development, and employment for inmates of the correctional institutions of the Commonwealth. The Commonwealth generally provides financial support to ETEC through legislative appropriations.

Farm Insurance Corporation of Puerto Rico (FICPR) — FICPR is governed by a five member board consisting of the Secretary of Agriculture of the Commonwealth, the Dean of the Agricultural Sciences Faculty of the UPR Mayaguez Campus, a representative of GDB, and two bona fide farmers appointed by the Governor with the advice and consent of the Senate. The purpose of the FICPR is to provide insurance to farmers against losses in their farms caused by natural disasters. The Commonwealth has the ability to impose its will on FICPR.

Fine Arts Center Corporation (FACC) — FACC is governed by a nine member board comprising the President of the Musical Arts Corporation and eight members named by the Governor. FACC was created with the purpose of administering the Fine Arts Center. The Commonwealth provides financial support to FACC through legislative appropriations.

Governing Board of the 9-1-1 Service (911 Service) — The 911 Service is governed by a five member board comprising the Chief of Police, the Executive Director of the Medical Emergency Services, the Director of the State Emergency Management Agency, the Chief of the Puerto Rico Firefighters Corps, and one member appointed by consensus of the four ex-officio members to represent the public interest. The 911 Service is responsible for providing an efficient service of fast response to emergency calls through the 911 number and transferring these to the appropriate response agencies using technological and human resources to safeguard lives and properties.

Institute of Puerto Rican Culture (IPRC) — IPRC is governed by a nine member board comprising the President of Musical Arts Corporation and eight members appointed by the Governor with the advice and consent of the Senate. The IPRC is responsible for implementing the public policy related to the development of Puerto Rican arts, humanities and culture. The Commonwealth provides financial support to IPRC through legislative appropriations.

Institutional Trust of the National Guard of Puerto Rico (ITNGPR) — ITNGPR is governed by a seven member board comprising of the Adjutant General of the Puerto Rico National Guard, the President of GDB, the Secretary of Justice of the Commonwealth, three militaries from the Puerto Rico National Guard, and one representative from the community appointed by the Governor. ITNGPR's purpose is to provide life insurance, retirement benefits, and economic assistance to the active members of the Puerto Rico National Guard and their families. The Commonwealth generally provides financial support to ITNGPR through legislative appropriations.

Land Authority of Puerto Rico (LAPR) — LAPR is governed by a five member board consisting of the Secretary of Agriculture of the Commonwealth and four members appointed by the Governor. LAPR was created to carry out the provisions of the Land Law of Puerto Rico. LAPR maintains debt that is paid with Commonwealth's appropriations and funds generated by LAPR operations.

Local Redevelopment Authority for Roosevelt Roads Puerto Rico (LRA) — LRA is governed by a nine member board comprising the Secretary of Economic Development and Commerce of the Commonwealth, who is the Chairman, two members appointed by the Mayor of the Municipality of Ceiba, one member appointed by the Mayor of the Municipality of Naguabo, one member appointed by the President of the Senate, one member appointed by the Speaker of the House of Representatives and three additional members appointed by the Governor, all to possess known interest and expertise in the areas of planning; commercial, tourism, residential and institutional development; real estate; tourism and recreational facilities administration; and infrastructure projects' management. LRA is responsible for the implementation of the reuse and redevelopment plan for the former Navy Station of Roosevelt Roads located in Ceiba, Puerto Rico. Some of the activities involved in these redevelopment plans include the direction, supervision, regulation and maintenance of the economic development on the land and facilities formerly occupied by the US Navy.

Musical Arts Corporation (MAC) — MAC is governed by a seven member board appointed by the Governor with the advice and consent of the Senate. MAC was created to promote the development of the arts and cultural programs of the Commonwealth. The Commonwealth provides financial support to MAC through legislative appropriations.

National Parks Company of Puerto Rico (NPCPR) — NPCPR is governed by a nine member board comprising the Secretary of Recreation and Sports Department of the Commonwealth (the "Secretary"), who is the chairman, the Secretary of the Department of Education of the Commonwealth, the Executive Director of the Puerto Rico Tourism Company, the Secretary of the Department of Natural and Environmental Resources of the Commonwealth, and five members

appointed by the Governor with the recommendation from the Secretary and with known interest in the development and preservation of parks in the private sector. NPCPR is responsible for the operation of all national parks and the protection, conservation, maintenance and use of parks, beaches, forests, and natural and historical monuments for the optimum enjoyment of present and future generations. The Commonwealth provides financial support to NPCPR through legislative appropriations.

Port of the Americas Authority (PAA) — PAA is governed by an eleven member board comprising of the Secretary of DTPW, the Secretary of Economic Development and Commerce, the Executive Director of Puerto Rico Industrial Development Company, the Majors of the Municipalities of Ponce, Peñuelas and Guayanilla and five private citizens appointed by the Governor with the consent of the Senate. The main purpose of PAA is the planning, development and construction of a large scale container terminal in the city of Ponce, Puerto Rico.

Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives (PCSDIPRC) — PCSDIPRC is governed by a nine member board comprising of the Administrator of the Cooperative Development Administration, the Commissioner of Financial Institutions of Puerto Rico, the Secretary of the Treasury of the Commonwealth, the Inspector of Cooperatives, three citizens representing the cooperative movement, one representative of the Puerto Rico Cooperatives League, and one private citizen representing the public interest. PCSDIPRC has the responsibility of providing to all the cooperatives and the Federation of Cooperatives of Puerto Rico insurance coverage over the stocks and deposits, and for monitoring the financial condition of the insured cooperatives, and the uninsured cooperatives when requested by the Inspector of Cooperatives. The Commonwealth has the ability to impose its will on PCSDIPRC.

Puerto Rico Conservatory of Music Corporation (PRCMC) — PRCMC is governed by a seven member board appointed by the Governor, with the advice and consent of the Senate. PRCMC is responsible for providing the Puerto Rican community and especially its youths with the required facilities to educate and perfect their musical skills, including secondary education programs for developing musical arts. It prepares the artistic element that nourishes the Puerto Rico Symphony Orchestra and other musical organizations, and coordinates the governmental efforts to interested industries, private enterprises, and particular citizens. The Commonwealth provides financial support to PRCMC through legislative appropriations.

Puerto Rico Convention Center District Authority (PRCCDA) — PRCCDA is governed by a nine member board of directors comprising of four members from the public sector and five members from the private sector. The public sector members comprise the Secretary of Economic Development and Commerce of the Commonwealth, who is the Chairman, the Executive Director of the Puerto Rico Tourism Company (PRTC), the president of GDB, and one member from the public sector. The private sector members are individuals having experience in the areas of hotel operations, tourism, real estate, or convention centers who are appointed by the Governor with the advice and consent of the Senate. PRCCDA was created to develop, own, finance, plan, design, construct, operate, manage, and promote the new Puerto Rico Convention Center and the Puerto Rico Convention District. The PRCCDA also has the ownership interest as well as other rights and obligations related to the development and operations of the Jose Miguel Agrelot Coliseum. The Commonwealth provides financial support to PRCCDA through legislative appropriations.

Puerto Rico Council on Education (PRCE) — PRCE is governed by a board comprising nine members appointed by the Governor with the consent of the Senate. Its purpose is to develop higher education, to administer the licensing and certification of institutions of higher education, and to administer scholarship funds. The Commonwealth provides financial support to PRCE through legislative appropriations.

Puerto Rico Government Investment Trust Fund (PRGITF) — PRGITF is governed by the Secretary of the Treasury of the Commonwealth. GDB is its trustee, custodian, and administrator. PRGITF's main objective is to provide investment opportunities in a professionally managed money market portfolio by investing in high quality securities with minimal credit risk. Qualified investors include the Commonwealth's central government, its public corporations, instrumentalities and agencies, and the municipalities of Puerto Rico. In conformity with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools,* the financial statements of the PRGITF are not included in the accompanying basic financial statements because the primary government and each component unit investor is already presenting as cash or investment their corresponding share of the assets of the PRGITF.

Puerto Rico Industrial Development Company (PRIDCO) — PRIDCO is governed by a seven member board comprising the Secretary of Economic Development and Commerce of the Commonwealth, who is the Chairman, the Secretary of the Treasury of the Commonwealth, the President of GDB, the President of the Planning Board of Puerto Rico, and three members from the private sector appointed by the Governor with the advice and consent of the Senate. The private sector members are appointed for a period of four years. PRIDCO administers the Commonwealth sponsored economic development program by providing facilities, general assistance, and special incentive grants to manufacturing companies operating in Puerto Rico. PRIDCO has issued interim notes and revenue bonds to finance manufacturing plants and other facilities. Rentals derived from the leasing of specified facilities of PRIDCO are pledged for the payment of PRIDCO's revenue bonds. PRIDCO maintains debt that is paid with Commonwealth's appropriations. The Commonwealth provides financial support to PRIDCO through legislative appropriations.

Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority (known as AFICA by its Spanish acronym) — AFICA is governed by a seven member board comprising of the Executive Director of PRIDCO, the President of GDB, the Executive Director of Puerto Rico Infrastructure Financing Authority, the Executive Director of the Puerto Rico Tourism Company (the "PRTC"), the President of the Environmental Quality Board, and two private citizens appointed by the Governor. AFICA is authorized to issue revenue bonds to finance industrial, tourist, environmental control, medical, and educational facilities in Puerto Rico and the United States of America for use by private companies, nonprofit entities, or governmental agencies. The bonds are payable solely from collections from such private companies, nonprofit entities, or governmental agencies, and do not constitute debt of the Commonwealth or any of its other component units.

Puerto Rico Infrastructure Financing Authority (PRIFA) — PRIFA is governed by a seven member board comprising of five members appointed the board of the directors of GDB, the Secretary of the Treasury of the Commonwealth and one member appointed by the Governor. The President is appointed by the Governor from among its members. Its responsibilities are to provide financial, administrative, consulting, technical, advisory, and other types of assistance to other component units and governmental instrumentalities of the Commonwealth, which are authorized to develop infrastructure facilities and to establish alternate means for financing them. PRIFA's boards of directors' members are executives on a trustworthy position, named and supervised by the Governor. The Commonwealth provides financial support to PRIFA through legislative appropriations.

Puerto Rico Land Administration (PRLA) — PRLA is governed by an eleven member board comprising the Secretary of Economic Development and Commerce of the Commonwealth, who serves as President, the President of the Planning Board of Puerto Rico, who serves as Vice-President, the Secretary of the Treasury of the Commonwealth, the Secretary of Agriculture of the Commonwealth, the Secretary of DTPW of the Commonwealth, the Secretary of Housing of the Commonwealth, the Executive Director of Puerto Rico Industrial Development Corporation and four members appointed by the Governor with the advice and consent of the Senate. PRLA acquires parcels of land on behalf of government instrumentalities through negotiation or expropriation for future development or for reserve. The Commonwealth provides financial support to the PRLA through legislative appropriations.

Puerto Rico and Municipal Islands Maritime Transport Authority (PRMIMTA) — PRMIMTA is governed by a five member board comprising the Secretary of DTPW, who serves as President, the Executive Director of the Ports Authority, the Mayors of Vieques and Culebra, and one additional member appointed by the Governor. The operations of PRMIMTA consist of administering and operating the maritime transportation services between San Juan, Fajardo, Vieques and Culebra. The Commonwealth provides financial support to PRMIMTA through legislative appropriations.

Puerto Rico Medical Services Administration (PRMeSA) — PRMeSA is governed by a ten member board comprising the Secretary of the Department of Health of the Commonwealth, who is the Chairman, the Dean of the Medical Sciences Faculty of the UPR, the President of the Board of the Puerto Rican Cancer Society, the Mayor of the Municipality of San Juan, the Administrator of the State Insurance Fund Corporation, the Administrator of the Administration of Mental Health and Anti — Addiction Services, the President of the Medical Policy and Administration Committee, the Secretary of the Department of Family, and two members appointed by the Secretary of the Department of Health of the Commonwealth. Its purpose is to plan, organize, operate, and administer the centralized health services, provided in support of the hospital and other functions, offered by the member institutions and users of the medical complex known as the Puerto Rico Medical Center. The Commonwealth provides financial support to PRMeSA through legislative appropriations.

Puerto Rico Metropolitan Bus Authority (PRMBA) — PRMBA is governed by the Secretary of DTPW of the Commonwealth. PRMBA provides bus transportation to passengers within the San Juan Metropolitan Area. The Commonwealth provides financial support to PRMBA through legislative appropriations.

Puerto Rico Municipal Finance Agency (PRMFA) — PRMFA is governed by a five member board comprising the President of GDB, who is the Chairman, the Commissioner of Municipal Affairs, and three additional members appointed by the Governor, one of whom shall be either the mayor or chief financial officer of a municipality. PRMFA was organized to create a capital market to assist the municipalities of Puerto Rico in financing their public improvement programs.

Puerto Rico Ports Authority (PRPA) — PRPA is governed by a five member board consisting of the Secretary of DTPW of the Commonwealth, who is the Chairman, the Secretary of Economic Development and Commerce of the Commonwealth, the Executive Director of the PRTC, the Executive Director of Puerto Rico Industrial Development Company and one private citizen appointed by the Governor with the consent of the Senate. The purpose of PRPA is to administer all ports and aviation transportation facilities of the Commonwealth and to render other related services. The Commonwealth generally provides financial support to PRPA through legislative appropriations.

Puerto Rico Public Broadcasting Corporation (PRPBC) — PRPBC is governed by an eleven member board of directors comprising the Secretary of the Department of Education of the Commonwealth, the President of the UPR, the Executive Director of IPRC, and eight private citizens appointed by the Governor with the advice and consent of the Senate. At least three of these private citizens must have proven interest, knowledge, and experience in education, culture, art, science, or radio and television. PRPBC was created for the purpose of integrating, developing, and operating the radio, television, and electronic communication facilities that belong to the Commonwealth. The Commonwealth provides financial support to PRPBC through legislative appropriations.

Puerto Rico Public Private Partnerships Authority (PPPA) — PPPA is governed by a five member board of directors comprising the President of GDB, the Secretary of the Treasury, the President of the Planning Board and two members appointed by the Governor, one member selected by the President of the Senate of Puerto Rico and another member, by the Speaker of the Puerto Rico House of Representatives. PPPA is the only government entity authorized and responsible for implementing public policy on Public Private Partnerships established by Act No. 29 of June 8, 2009 and to determine the functions, services or facilities for which such Partnerships will be established.

Puerto Rico School of Plastic Arts (PRSPA) — PRSPA is governed by a seven member board. Four members are appointed by the board of directors of IPRC, representing the public educational and cultural interests. Board members may not be employees of the PRSPA. The remaining three members are elected from among the members of the board of directors of IPRC, one of whom will serve as president. PRSPA was created to develop, promote, plan, and coordinate programs of study in higher education oriented to the plastic arts, teaching, artistic techniques, and to help students to develop humanistic values. The Commonwealth generally provides financial support to PRSPA through legislative appropriations.

Puerto Rico Telephone Authority (PRTA) — PRTA is governed by a five member board comprising the President of GDB and four members that are appointed by the board of directors of GDB. PRTA is the legal entity responsible to account for the equity interest in Telecommunications de Puerto Rico, Inc., for the benefit of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS). The Commonwealth generally provides financial support to PRTA through legislative appropriations.

Puerto Rico Tourism Company (PRTC) — PRTC is governed by a seven member board comprising of representatives of different tourist related sectors appointed by the Governor with the consent of the Senate. At least one member must represent internal tourism and two must not be residents of the metropolitan area. Its purpose is to promote the tourism industry of Puerto Rico. The Commonwealth generally provides financial support to PRTC through legislative appropriations.

Puerto Rico Trade and Export Company (PRTEC) — PRTEC is governed by a nine member board comprising the Secretary of the Department of Economic Development and Commerce, who is the Chairman, the Executive Director of the Ports Authority, the Secretary of the Department of Agriculture, the President of EDB, the Executive Director of PRIDCO, the Legal Division Director of PRTEC, and three private citizens. PRTEC has the responsibility to promote the highest efficiency in the services provided to the commercial sector, with emphasis on small and medium sized enterprises while promoting the export of products and services from Puerto Rico to other countries. The Commonwealth provides financial support to PRTEC through legislative appropriations.

Solid Waste Authority (SWA) — SWA is governed by a government board appointed by the Secretary of the Department of Natural Resources, whereby, the Secretary and the Executive Director of SWA periodically meet. SWA provides alternatives for processing of solid waste and encourages recycling, reuse, and recovery of resources from waste. The Commonwealth provides financial support to SWA through legislative appropriations.

Special Communities Perpetual Trust (SCPT) — SCPT is governed by a board of directors composed of eleven members: the Secretary of the Department of Housing of the Commonwealth, the Secretary of the DTPW of the Commonwealth, the Coordinator for the Social and Economic Financing of the Special Communities, one mayor of a municipality of Puerto Rico, one community leader resident in one special community, four private citizens representing the public interest, and two public employees. All members of the board of directors are appointed by the Governor. SCPT's principal purpose is to fund development projects that address the infrastructure and housing needs of the underprivileged communities. The Commonwealth provides financial support to SCPT through legislative appropriations.

State Insurance Fund Corporation (SIFC) — SIFC is governed by a seven member board appointed by the Governor with the advice and consent of the Senate. The board comprises the Commissioner of Insurance of Puerto Rico, an officer from the Department of Labor and Human Resources of the Commonwealth, an officer from the Department of Health of the Commonwealth, a representative of the employers' interest, a representative of the employees' interest, and two members without any of these interests. One of these members is appointed by the Governor as president of the board for a period of six years. The three public officials are appointed for a period of five years, and the rest of the members for four, three, two, and one year, respectively. SIFC provides workers' compensation and disability insurance to public and private employees. The Commonwealth has access to SIFC's resources.

University of Puerto Rico Comprehensive Cancer Center (UPRCCC) — UPRCCC is governed by an eleven member board comprising of five ex-officio members: the President of the University of Puerto Rico (the UPR), the Chancellor of Medical Sciences Campus of the UPR, the Secretary of the Department of Health of the Commonwealth, the Dean of the UPR School of Medicine and the Director of the Office of Management and Budget of the Commonwealth. The remaining six (6) members are as follows: one member who is a representative of the medical faculty of the Medical Science Campus, appointed by the President of the University; one member who is a cancer research specialist of the Medical Science Campus of the University, appointed by the President of the University; one member who is a cancer patient residing in Puerto Rico, appointed by the President of the University; and three citizens of Puerto Rico who have shown commitment to the fight against cancer, one of which will be a member of the "Liga Puertorriqueña Contra el Cancer", appointed by the Governor.

Complete financial statements of the discretely presented component units can be obtained directly by contacting their administrative offices:

Government Development Bank for Puerto Rico
P.O. Box 42001
San Juan, PR 00940-2001

Puerto Rico Aqueduct and Sewer Authority
P.O. Box 7066
San Juan, PR 00916-7066

Puerto Rico Electric Power Authority
P.O. Box 364267
San Juan, PR 00936-4267

Puerto Rico Health Insurance Administration
P.O. Box 195661
San Juan PR 00919-5661

Puerto Rico Highways and Transportation Authority
P.O. Box 42007
San Juan, PR 00940-2007

University of Puerto Rico
Jardín Botánico Sur
1187 Street Flamboyán
San Juan, PR 00916-1117

Agricultural Enterprises Development Administration
P.O. Box 9200
Santurce, PR 00908-0200

Automobile Accidents Compensation Administration
P.O. Box 364847
San Juan, PR 00936-4847

Cardiovascular Center Corporation of Puerto Rico and the Caribbean
P.O. Box 366528
San Juan, PR 00936-6528

Company for the Integral Development of the "Península de Cantera"
P.O. Box 7187
Santurce, PR 00916-7187

Corporation for the "Caño Martín Peña" ENLACE Project
P.O. Box 41308
San Juan, PR 00940-1308

Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico
P.O. Box 362350
San Juan, PR 00936-2350

Culebra Conservation and Development Authority
P.O. Box 217
Culebra, PR 00775-0217

Economic Development Bank for Puerto Rico
P.O. Box 2134
San Juan, PR 00922-2134

Employment and Training Enterprises Corporation
P.O. Box 366505
San Juan, PR 00936-6505

Farm Insurance Corporation of Puerto Rico
P.O. Box 9200
Santurce, PR 00908

Fine Arts Center Corporation
P.O. Box 41287 — Minillas Station
San Juan, PR 00940-1287

Governing Board of the 9-1-1 Service
P.O. Box 270200
San Juan, PR 00927-0200

Institute of Puerto Rican Culture
P.O. Box 9024184
San Juan, PR 00902-4184

Institutional Trust of the National Guard of Puerto Rico
P.O. Box 9023786
San Juan, PR 00902-3786

Land Authority of Puerto Rico
P.O. Box 9745
Santurce, PR 00908-9745

Local Redevelopment Authority for Roosevelt Roads Puerto Rico
400 Calaf Street
PMB 456
San Juan, PR 00918-1314

Musical Arts Corporation
P.O. Box 41227
San Juan, PR 00940-1227

National Parks Company of Puerto Rico
P.O. Box 9022089
San Juan, PR 00902-2089

Port of the Americas Authority
P.O. Box 195534
San Juan, PR 00919-5534

Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives
P.O. Box 195449
San Juan, PR 00919-5449

Puerto Rico Conservatory of Music Corporation
951 Ponce de León Ave.
San Juan, PR 00907-3373

Puerto Rico Convention Center District Authority
P.O. Box 19269,
San Juan, Puerto Rico, 00910-1269

Puerto Rico Council on Education
P.O. Box 19900
San Juan, PR 00910-1900

Puerto Rico Government Investment Trust Fund
P.O. Box 42001 — Minillas Station
San Juan, PR 00940-2001

Puerto Rico Industrial Development Company
P.O. Box 362350
San Juan, PR 00936-2350

Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority
P.O. Box 42001
San Juan, PR 00940-2001

Puerto Rico Infrastructure Financing Authority
P.O. Box 41207 Minillas Station
San Juan, PR 00940

Puerto Rico Land Administration
P.O. Box 363767
San Juan, PR 00936-3767

Puerto Rico and Municipal Islands Maritime Transport Authority
P.O. Box 4305
Puerto Real, PR 00740

Puerto Rico Medical Services Administration
P.O. Box 2129
San Juan, PR 00922-2129

Puerto Rico Metropolitan Bus Authority
P.O. Box 195349
San Juan, PR 00919-5349

Puerto Rico Municipal Finance Agency
P.O. Box 42001
San Juan, PR 00940-2001

Puerto Rico Ports Authority
P.O. Box 362829
San Juan, PR 00936-2829

Puerto Rico Public Broadcasting Corporation
P.O. Box 190909
San Juan, PR 00919-0909

Puerto Rico Public Private Partnership Authority
P.O. Box 42001
San Juan, PR 00940-2001

Puerto Rico School of Plastic Arts
P.O. Box 9021112
San Juan, PR 00902-1112

Puerto Rico Telephone Authority
P.O. Box 42001
San Juan, PR 00940-2001

Puerto Rico Tourism Company
Tanca Street #500, Ochoa Building 3rd Floor,
Old San Juan, PR 00902-3960

Puerto Rico Trade and Export Company
P.O. Box 195009
San Juan, PR 00919-5009

Solid Waste Authority
P.O. Box 40285
San Juan, PR 00940-0285

Special Communities Perpetual Trust
P.O. Box 42001
San Juan, PR 00940-2001

State Insurance Fund Corporation
P.O. Box 365028
San Juan, PR 00936-5028

University of Puerto Rico Comprehensive Cancer Center
PMB 711
89 De Diego Ave., Suite 105
San Juan, PR 00927-6346

The financial statements of the discretely presented component units have a year end of June 30, 2012, except for the Puerto Rico Telephone Authority, which has a year end of December 31, 2011.

Fiduciary Component Units — The three employee retirement systems administer pension funds for the Commonwealth and its political subdivisions. The three systems (the “Systems”) are subject to legislative and executive controls, and the administrative expenses are subject to legislative budget controls. These component units, while meeting the definition of a component unit and are legally separate, are presented in the fund financial statements along with other fiduciary funds of the Commonwealth. They have been omitted from the government wide financial statements, as their resources are not available to fund operations of the Commonwealth. The Systems, as governmental retirement plans, are excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Employees’ Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) — ERS is governed by a board of trustees, which is composed of the Secretary of the Treasury of the Commonwealth, who is the President, the President of GDB, the Commissioner for Municipal Affairs, the Director of the Puerto Rico Central Office of Personnel Administration, two participating employees, and one retiree, who are appointed by the Governor. The Commonwealth reports ERS as a cost sharing multiple employer pension plan. ERS is a multiple employer defined benefit pension plan, which covers all regular employees of the Commonwealth and its instrumentalities and of certain municipalities and component units not covered by their own retirement systems.

Puerto Rico Judiciary Retirement System (JRS) — JRS is governed by the same board of trustees as ERS. JRS is a single employer defined benefit plan that covers all active judges or retired judges of the judiciary branch of the Commonwealth.

Puerto Rico System of Annuities and Pensions for Teachers (TRS) — TRS is governed by a nine member board comprising three ex-officio members, which are the Secretary of the Department of Education, the Secretary of the Treasury of the Commonwealth, the President of GDB, and one member who is a representative of a teachers' organization designated by the Governor; three teachers appointed by the Governor, one of which represents currently certified teachers in active service, and two who represent retired teachers; one member who is a representative of the entity that represents the proper unit under Act No. 45 of February 25, 1998, as amended; and one additional member, as representative of the public interest, with knowledge of and experience in the administration and operation of financial systems, appointed by the Governor. The Commonwealth reports TRS as a single employer pension plan. TRS provides retirement benefits to all teachers of the Department of Education of the Commonwealth, all pensioned teachers, all teachers transferred to an administrative position in the Department of Education of the Commonwealth, and those who practice in private institutions accredited by the Department of Education of the Commonwealth who elect to become members. TRS provides retirement, death, and disability benefits.

Complete financial statements of these component units can be obtained directly by contacting their respective administrative offices at:

Employees' Retirement System of the
Government of the Commonwealth of Puerto Rico
P.O. Box 42003 — Minillas Station
San Juan, PR 00940-2203

Puerto Rico Judiciary
Retirement System
P.O. Box 42003 — Minillas Station
San Juan, PR 00940-2203

Puerto Rico System of Annuities and Pensions for
Teachers
P.O. Box 191879
San Juan, PR 00919-1879

(c) Government-Wide Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information of all of the nonfiduciary activities of the Commonwealth and its component units. For the most part, the effect of interfund activity has been removed from these government wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable. The statement of net assets presents the reporting entities' nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in Capital Assets, Net of Related Debt — These consist of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances of bonds, notes, and other debt that is attributed to the acquisition, construction, or improvement of those assets.

Restricted Net Assets — These result when constraints placed on the net assets' use are either externally imposed by creditors, grantors, contributors, and the like or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets — These consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

When both restricted and unrestricted resources are available for use, generally, it is the Commonwealth's policy to use restricted resources first, then the unrestricted resources as they are needed.

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment, or component unit are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Program revenue includes charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, segment, or component unit. Program revenue also includes grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Taxes and other items not properly included among program revenue are reported instead as general revenue. Resources that are dedicated internally are reported as general revenue rather than as program revenue. The Commonwealth does not allocate general government (indirect) expenses to other functions.

(d) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government Wide Financial Statements — The government wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenues from property tax are recognized in the fiscal year for which the taxes are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental Fund Financial Statements — The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. Principal revenue sources considered susceptible to accrual include tax revenue, net of estimated overpayments (refunds) and amounts considered not collectible, which are recorded as taxpayers earn income (income taxes), as sales are made (consumption, sales and use taxes) and as cash is received (miscellaneous taxes). For this purpose, the Commonwealth considers income tax revenue to be available if collected within 120 days after the end of the current fiscal year end, property tax revenue if collected within 90 days after the end of the current fiscal year, and consumption sales and use tax if collected within 30 days after the end of the current fiscal year. In applying the susceptible to accrual concept to federal grants, there are essentially two types of revenue. For the majority of grants, moneys must be expended by the Commonwealth on the specific purpose or project before any amounts will be reimbursed. Revenue is, therefore, recognized as expenditures are incurred to the extent available. For the other revenue, moneys are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenue at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include the following:

- Employees' vested annual vacation and sick leave are recorded as expenditures when utilized. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2012 has been reported only in the government wide financial statements.

- Interest and principal on general long-term obligations and interest on interest rate swap agreements are recorded when due, except for interest and principal due on July 1 of the following fiscal year, if resources are available for its payment as of June 30.

- Debt service expenditures, federal funds' cost disallowances, other long-term obligations, and amounts subject to judgments under litigation are recorded in the governmental funds only when payment is due; and in the case of judgments under litigation, when a settlement has been made and awaiting payment. Until this criteria is met, these liabilities have been recorded only in the government wide financial statements.

Proprietary Funds, Fiduciary Funds, and Discretely Presented Component Units Financial Statements — The financial statements of the proprietary funds, fiduciary funds, and discretely presented component units are reported using the economic measurement focus and the accrual basis of accounting, similar to the government wide financial statements described above.

Each enterprise fund has the option under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to elect and apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless these conflict with a GASB pronouncement. The primary government's major enterprise funds have elected not to apply FASB pronouncements issued after November 30, 1989 and two nonmajor enterprise funds elected to adopt the FASB's pronouncements issued after November 30, 1989. Also, certain discretely presented component units have disclosed their election in their separately issued financial statements. The component units follow GAAP as issued by GASB and FASB as applicable to each component unit based on the nature of their operations. In addition, the Puerto Rico Government Investment Trust Fund adopted GASB Statement No. 31; *Accounting and Financial Reporting for Certain Investments and for External Investments Pools*; however, such financial statements are not included in the accompanying basic financial statements because the primary government and each component unit's investor already present their corresponding share of the assets of the PRGITF as cash or investments.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses. The major operating revenue of the Commonwealth's enterprise funds is as follows:

Unemployment Insurance Fund — Amounts requisitioned for the Puerto Rico Unemployment Insurance Trust Fund held by the U.S. Treasury for payment of unemployment benefits and charges made to individual employers.

Lotteries Fund — Amounts collected from the sale of traditional lottery tickets and electronic lotto games.

(e) Fund Accounting

The Commonwealth reports its financial position and results of operations in funds, which are considered separate accounting entities, and discrete presentations of those component units, which are not required to be blended. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual

provisions. Major funds are determined using a predefined percentage of the assets, liabilities, revenue, or expenditures/expenses of either the fund category or the governmental and enterprise funds combined. The nonmajor funds are combined in a single column in the fund financial statements. The Commonwealth reports the following major funds:

Governmental Funds:

General Fund — The general fund is the primary operating fund of the Commonwealth. It is used to account for and report all financial resources received and used for those services traditionally provided by a government, except those required to be accounted for and reported in another fund. Included are transactions for services such as general government, public safety, health, public housing and welfare, and education.

Pledged Sales and Use Tax Fund — The pledge sales and use tax fund is used to account for and report the sales tax revenue and the corresponding transfer to COFINA debt service fund for the payment of debt.

Debt Service Fund — The debt service fund accounts for and reports financial resources that are restricted, committed or assigned to expenditure for general long-term bonds' principal, interest, and related costs other than bonds payable from the operations of proprietary fund types, pension trust funds, and discretely presented component units. Long-term debt and interest due on July 1 of the following fiscal year are accounted for as a fund liability if resources are available as of June 30 for its payment.

COFINA Special Revenue Fund — The special revenue fund of the Puerto Rico Sales Tax Financing Corporation (COFINA) is used to account for and report all financial resources of COFINA, except those required to be accounted for and reported in another fund.

COFINA Debt Service Fund — The debt service fund of the Puerto Rico Sales Tax Financing Corporation is used to account for the Commonwealth sales tax revenue being deposited in the Dedicated Sales Tax Fund for the payment of interest and principal on long-term obligations.

Nonmajor Governmental Funds — The Commonwealth reports the following blended component units within the nonmajor governmental funds: Public Buildings Authority, The Children's Trust, and the Puerto Rico Maritime Shipping Authority. If a component unit is blended, the governmental fund types of the component unit should be blended with those of the primary government by including them in the appropriate combining statements of the primary government. Although the primary government's General Fund is usually the main operating fund of the reporting entity, the General Fund of a blended component unit should be reported as a Special Revenue Fund. Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

The capital projects fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. These capital expenditures may be for the primary government directly or for discrete component units and outside organizations and governments such as the municipalities of the Commonwealth and other applicable entities. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Proprietary Funds — These funds account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to the general public.

The Commonwealth reports the following major proprietary funds:

Unemployment Insurance Fund — This fund accounts for amounts requisitioned for the Puerto Rico Unemployment Insurance Trust Fund held by the U.S. Treasury for payment of unemployment benefits and charges made to individual employers.

Lotteries Fund — This fund accounts for the assets and operations of two lottery systems administered by the Commonwealth.

The Commonwealth reports the following nonmajor proprietary funds: Disability Insurance, Drivers' Insurance, Puerto Rico Water Pollution Control Revolving Fund, and Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund.

Fiduciary Funds — Fiduciary funds are used to account for assets held by the Commonwealth in a trustee capacity, or as an agent for individuals, private organizations, and other governmental units. The following are the Commonwealth's fiduciary funds:

Pension Trust Funds — These are used to account for the assets, liabilities, and net assets available for pension benefits held in trust for the public employees' retirement systems.

Agency Funds — These are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations.

Discretely Presented Component Units — Discrete presentation of component units is used to present the financial information of entities that do not qualify to be blended, in accordance with GASB Statement No. 14, as amended by GASB Statement No. 39, with the funds of the primary government. The component units' column in the government wide financial statements is used to report the financial activities of the Commonwealth's discretely presented component units. The financial statements of these component units are presented following the accrual basis of accounting. Under the accrual basis, revenue is recognized when earned and expenses are recorded at the time liabilities are incurred, without regard to receipt or payment of cash.

(f) Reconciliation of Government-wide and Fund Financial Statements

A summary reconciliation of the difference between total fund balances (deficit) as reflected on the governmental funds balance sheet and total net assets (deficit) of governmental activities as shown on the government-wide statement of net assets is presented in an accompanying schedule to the governmental funds balance sheet. The asset and liability elements which comprise the difference are related to the governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting.

A summary reconciliation of the difference between net change in fund balances (deficit) as reflected on the governmental funds statement of revenues, expenditure, and changes in fund balances (deficit) and change in net assets (deficit) of governmental activities as shown on the government-wide statement of activities is presented in an accompanying schedule to the government funds statement of revenues, expenditures, and changes in fund balances (deficit). The revenue and expense elements which comprise the reconciliation difference stem from governmental funds using the current financial resources measurement focus and the modified

accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting.

(g) Statutory (Budgetary) Accounting

The Commonwealth's budget is adopted in accordance with a statutory basis of accounting, which is not in accordance with US GAAP. Revenue is generally recognized when cash is received, net of tax refunds claimed by taxpayers as of year-end. Short term and long-term borrowings may be used to finance budgetary excess of expenditures over revenue. Expenditures are generally recorded when the related expenditure is incurred or encumbered. Encumbrances generally lapse the year following the end of the fiscal year when the encumbrance was established, as established by Act No. 123 of August 17, 2001. Unencumbered appropriations lapse at year-end. Amounts required for settling claims and judgments against the Commonwealth and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment.

Under the statutory basis of accounting, the Commonwealth uses encumbrance accounting to record the full amount of purchase orders, contracts, and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control.

The statement of revenue and expenditures — budget and actual — budget basis — general fund only presents the information for the general fund for which there is a legally adopted budget, as required by US GAAP. See Note 3(b) for a reconciliation of the statement of revenue and expenditures — budget and actual — budget basis — general fund with the statement of revenues, expenditures, and changes in fund balances (deficit) for the general fund. The special revenue funds do not have a legally mandated budget.

(h) Cash and Short Term Investments

The Commonwealth follows the practice of pooling cash. The balance in the pooled cash accounts is available to meet current operating requirements, and any excess is invested in various interest bearing accounts with the Government Development Bank for Puerto Rico and with the Puerto Rico Government Investment Trust Fund (PRGITF). Cash and cash equivalents include investments with original maturities of 90 days or less from the date of acquisition.

The Commissioner of Financial Institutions requires that private financial institutions deposit collateral securities to secure the deposits of the Commonwealth and all other governmental entities in each of these institutions. The amount of collateral securities to be pledged for the security of public deposits shall be established by the rules and regulations promulgated by the Commissioner of Financial Institutions.

The Puerto Rico Unemployment Insurance Trust Fund is maintained to account for the collection of unemployment insurance contributions from employers and the payment of unemployment benefits to eligible claimants. As required by federal law, all resources not necessary for current benefit payments are placed on deposit with the U.S. Treasury. Interest earned over such deposit is retained in the fund.

Cash and short term investments and cash equivalents of the component units and certain funds of the primary government are maintained in separate bank accounts, from those of the rest of the primary government, in their own names.

(i) Securities Purchased under Agreements to Resell

Certain component units of the Commonwealth enter into purchases of securities with simultaneous agreements to resell the same securities ("repurchase agreements"). The amounts advanced under these agreements generally represent short–term loans and are reflected as an asset. The securities underlying these agreements mainly consist of U.S. government obligations, mortgage-backed securities, and interest bearing deposits with other banks. Repurchase agreements are authorized transactions under their respective enabling legislation and/or authorized by GDB.

(j) Securities Lending Transactions

Certain component units of the Commonwealth enter into securities lending transactions in which governmental entities (lenders) transfer their securities to broker dealers and other entities (borrowers) for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Cash received as collateral on securities lending transactions and investments made with that cash are reflected as investments. Securities received as collateral are reported as investments if the component unit has the ability to pledge or sell them without a borrower default. Liabilities resulting from these securities lending transactions also are reported in the statement of net assets. Securities lending transactions collateralized by letters of credit or by securities that the component unit does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities in the statement of net assets.

(k) Investments and Investment Contracts

Investments and investment contract mainly include U.S. government and agencies' obligations, mortgage-backed securities, repurchase agreements, commercial paper, local government obligations, investment contracts, and corporate debt and equity obligations. Investments and investment contracts, are carried at fair value, except for money market investments and participating investment contracts with a remaining maturity at the time of purchase of one year or less and nonparticipating investment contracts (guaranteed investment contracts), which are carried at cost; and investment positions in 2a-7 like external investment pools, which are carried at the pool's share price. Fair value is determined based on quoted market prices and quotations received from independent broker/dealers or pricing service organizations. Investment income, including changes in the fair value of investments, is presented as investment earnings in the statement of activities, the statement of revenues, expenditures, and changes in fund balances (deficit) — governmental funds, and the statement of revenues, expenses, and changes in fund net assets (deficit) — proprietary funds. Realized gains and losses from the sale of investments and unrealized changes in the fair value of outstanding investments are included in the change in the fair value of investments.

The PRGITF is considered a 2a7 like external investment pool and, as such, reports its investments at amortized cost.

(l) Receivables

Tax receivables in the general fund include predominantly amounts owed by taxpayers for individual and corporate income taxes, net of estimated uncollectible amounts. Income tax receivables are recognized as revenue when they become measurable and available based on actual collections during the 120 days following the fiscal year end related to tax returns due before year end. Taxes receivables also include amounts owed by taxpayers on income earned in periods prior to June 30, 2012, estimated to be collectible but not currently available, and thus are reported as

deferred revenue in the general fund. Unemployment, disability, and driver's insurance receivables in the enterprise funds are stated net of estimated allowances for uncollectible accounts.

The sales and use tax receivable is recognized as revenue when it becomes measurable and available based on actual collections during the 30 days following the fiscal year-end related to sales and use tax returns due before year-end.

Excise tax receivable is recognized as revenue when it becomes measurable and available based on actual collections during the 30 days following the fiscal year-end related to transactions that occurred before year-end. Act No. 154 of October 25, 2010 imposes a new temporary excise tax on the acquisition of certain personal property manufactured or produced in whole or in part in Puerto Rico and on the acquisition of certain manufacturing services carried out in Puerto Rico by nonresident alien individuals, foreign corporations and foreign partnerships. Act No. 154 applies to income realized and acquisitions occurring after December 31, 2010. Act No. 154 provides that, in certain circumstances, taxpayers will be deemed to be engaged in trade or business in Puerto Rico and taxable in Puerto Rico with respect to a portion of taxpayer's income where the taxpayers engage in significant transactions with other persons that are members of the same controlled group. Where a person engages in significant transactions with a member of the same controlled group that has gross receipts of seventy-five million dollars or more in any of the last three years and that manufactures or produces goods in Puerto Rico, or provides services in connection with the manufacture or production of goods in Puerto Rico, the person will not be subject to income tax, but will instead be subject to the excise tax in lieu of any income tax. The excise tax will apply for a period of six years. The excise tax is based on the value of the personal property or services acquired and will be 4% for calendar year 2011, declining to 3.75% in 2012, 2.75% in 2013, 2.5% in 2014, 2.25% in 2015 and 1% in 2016. On February 28, 2013, Act No. 2 was enacted raising the then prevailing excise tax rate of 2.75% to 4%, effective immediately, and maintaining such rate fixed at 4% until the year 2017.

Real property tax payments, under Act No. 7 described below, for the fiscal year ended June 30, 2012 were due September 1, 2011 and March 1, 2012. Property tax revenue represents payments received during the year and payments received (against the current fiscal year and prior years' levies) within the first three months of the following fiscal year reduced by tax refunds for the fund financial statements. Additionally, the government wide financial statements recognize real property tax revenues (net of refunds) which are not available to the governmental fund type in the fiscal year for which the taxes are levied. Act No. 7 of March 9, 2009, as amended, imposed a real property tax, in addition to the one already established for the municipalities of the Commonwealth through the Municipal Revenue Collection Center (CRIM), on residential and commercial real properties with appraised values in excess of approximately $210,000. This tax was applicable during fiscal years 2010 through 2012 and amounted to 0.591% of such properties' appraised value as determined by the CRIM. Act No. 1 of January 31, 2011 eliminated this additional real property tax commencing with the quarter ended June 30, 2011.

Accounts receivable are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables primarily represent amounts owed to the Commonwealth for reimbursement of expenditures incurred pursuant to federally funded programs. Intergovernmental receivables also include taxes that the CRIM, is required to remit to the Commonwealth to be used by the Commonwealth's debt service fund for payment of debt service on general obligations of the Commonwealth. The amount to be remitted is based on the special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation, which is levied by the CRIM.

The accounts receivable from nongovernmental customers of the component units are net of estimated uncollectible amounts. These receivables arise primarily from service charges to users. Accounts receivable from the primary government and other component units that arise from service charges although deemed fully collectible, are evaluated for collectability.

Loans of the general fund are net of estimated uncollectible amounts. These receivables arise from amounts owed by public corporations and municipalities for public insurance and rent paid by the general fund on their behalf.

The loans of the pension trust funds do not have allowances for uncollectible amounts since such loans are secured by mortgage deeds, plan members' contributions, and any unrestricted amounts remaining in escrow. Loans of the component units consist predominantly of loans to the primary government, other component units, and municipalities, and do not have allowances for uncollectible accounts as those are deemed fully collectible. The remaining loans of the component units are to small and medium businesses, agricultural, and low income housing loans from nongovernmental customers, and are presented net of estimated losses on such portfolios.

(m) Inventories

Generally, inventories are valued at cost and predominantly on the first in, first out basis. Governmental fund inventories are recorded as expenditures when purchased rather than capitalized as an asset. Only significant amounts of inventory at the end of the year are capitalized in the governmental funds. However, inventories are always capitalized in the statement of net assets of governmental activities.

(n) Restricted Assets

Funds set aside for the payment and guarantee of notes and interest payable and for other specified purposes are classified as restricted assets since their use is limited for this purpose by applicable agreements or required by law. Restricted assets in the proprietary funds mainly include amounts set aside for the payment of insurance benefits.

(o) Real Estate Held for Sale

Real estate held for sale are carried at the lower of fair value or cost, which is established by a third-party professional assessment or based upon an appraisal, minus estimated costs to sell. Subsequent declines in the value of real estate available for sale are charged to expenditure/expense.

(p) Capital Assets

Capital assets include land, buildings, building improvements, equipment (including software), vehicles, construction in process, and infrastructure assets, and are reported in the applicable governmental, business type activities, and component unit columns in the government wide financial statements. The Commonwealth's primary government defines capital assets as assets that (i) have an initial, individual cost of $25,000 or more at the date of acquisition; and (ii) have a useful life of five or more years. Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available.

The method to deflate the current cost of the same or a similar asset using an approximate price index was used to estimate the historical cost of certain land, buildings, and building

improvements, because invoices and similar documentation were no longer available in certain instances. Donated capital assets are recorded at fair market value at the time of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs are capitalized during the construction period only for business type activities and most component units. The costs of normal maintenance and repairs that do not add value to the assets or materially extend asset lives are not capitalized.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government wide financial statements, as well as the proprietary funds and component units' financial statements.

Capital assets of the primary government are depreciated on the straight line method over the assets' estimated useful life. There is no depreciation recorded for land and construction in progress. The estimated useful life of capital assets is as follows:

	Years
Buildings and building improvements	20–50
Equipment, furniture, fixtures, vehicles and software	5–15
Infrastructure	50

The capital assets of the component units are recorded in accordance with the applicable standards of the component units and under their own individual capitalization thresholds. Depreciation has been recorded when required by these standards based on the types of assets, use and estimated useful lives of the respective assets, and on the nature of each of the component unit's operations.

The estimated useful lives of capital assets reported by the component units are as follows:

	Years
Buildings and building improvements	3–50
Equipment, furniture, fixtures, vehicles and software	3–20
Intangibles, other than software	3–5
Infrastructure	10–50

The Commonwealth follows the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries — an amendment to GASB Statement No. 34*. This statement establishes guidance for accounting and reporting for the impairment of capital assets and for insurance recoveries.

(q) Tax Refunds Payable

During the calendar year, the Commonwealth collects individual income taxes through withholdings and payments from taxpayers. At June 30, the Commonwealth estimates the amount owed to taxpayers for overpayments during the first half of the calendar year. These estimated amounts and the actual tax refunds claimed for prior years but not paid at year end are recorded as tax refunds payable and as a reduction of tax revenue.

(r) Deferred Revenue

Deferred revenue at the governmental fund level arises when potential revenue does not meet the "available" criteria for revenue recognition in the current period. Deferred revenue also arises

when resources are received before the Commonwealth has a legal claim to them, as when grant moneys are received prior to incurring the qualifying expenditures. In subsequent periods, when the revenue recognition criteria is met, or when the Commonwealth has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet, and the revenue is recognized. Deferred revenue at the government wide and proprietary fund levels arises only when the Commonwealth receives resources before it has a legal claim to them.

(s) Long-term Debt

The liabilities reported in the government wide financial statements include Commonwealth's general obligation bonds and long-term notes, obligations under lease/purchase agreements, and long-term liabilities including vacation, sick leave, long-term liabilities to other governmental entities, net pension obligation, legal claims, and noncurrent federal fund cost disallowances related to expenditures of federal grants. Long-term obligations financed by proprietary fund types and component units are recorded as liabilities in those funds and in the discretely presented component units' column.

In the government wide financial statements, premiums, discounts, and issuance costs on long-term debt and other long-term obligations are presented in the columns for governmental and business type activities. The same is presented in the proprietary fund financial statements. Bond and note premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt. Bonds and notes payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges in other assets and are amortized over the term of the related debt. In the governmental fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

The difference between reacquisition price and the net carrying amount of the old debt in a refunding transaction is deferred and amortized as a component of interest over the remaining life of the old debt, or the life of the new debt, whichever is shorter. On the statement of net assets, this deferred amount is reported as a deduction from, or as an addition to, the new debt liability.

(t) Derivative Instruments

The Commonwealth accounts for derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Derivative instruments such as interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts are entered into by governments as investments; as hedges of identified financial risks associated with assets or liabilities, or expected transactions (i.e., hedgeable items); to lower the costs of borrowings; to effectively fix cash flows or synthetically fix prices; or to offset the changes in fair value of hedgeable items. Certain derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, are reported at fair value by governments in their government-wide financial statements. The changes in fair value of hedging derivative instruments are reported as deferred inflows or deferred outflows. The changes in fair value of investment derivative instruments (which include ineffective hedging derivative instruments) are reported as part of investment revenue in the current reporting period. Effectiveness is determined by considering whether the changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item. See Note 23 for disclosure information relating to hedging and investment derivative instruments.

(u) Accounting for Pension Costs

The Commonwealth accounts for pension costs under the provisions of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*. Under GASB Statement No. 27, pension expense is equal to the statutory required contribution to the employees' retirement system. A pension liability or asset is reported equal to the cumulative difference between annual required contributions and actual contributions.

For the purpose of applying the requirements of GASB Statement No. 27, as amended by GASB Statement No. 50, *Pension Disclosures*, the Commonwealth's financial reporting entity is considered to be a sponsor of three defined benefit pension plans: JRS, TRS and ERS. This is because substantially all the participants in the three pension trust funds are part of the financial reporting entity of the Commonwealth. For the purpose of the basic financial statements, and as disclosed in Note 20, the Commonwealth's annual pension cost, measured on the accrual basis of accounting, for the year ended June 30, 2012 amounted to approximately $2.6 billion. However, the statutory contributions made by the sponsors of the three defined benefit plans amounted to approximately $775.8 million. The excess of the annual required contribution over the statutorily required contributions of approximately $1.8 billion increased the net pension obligation at June 30, 2012 to approximately $11.2 billion. This amount is presented in the statement of net assets (deficit) of the governmental activities as of June 30, 2012.

For purposes of the stand-alone financial statements of each of the blended and discretely presented component units, the entities accounted for pension costs from the standpoint of a participant in a multiple employer cost sharing plan. Accordingly, pension costs recognized are equal to the statutorily or contractually required contributions, with a liability recorded for any unpaid required contributions. The basis of accounting used by the component units was either modified accrual basis or accrual basis, depending upon individual fund structure and type of entity. Most component units did not have pension related assets or liabilities at transition because they have contributed the statutorily required contributions.

(v) Other Postemployment Benefits

In addition to the pension benefits described in Note 20, the Commonwealth provides other postemployment benefits (OPEB) such as summer and Christmas bonus, and post-employment healthcare benefits for its retired employees in accordance with local law. Substantially, all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth.

The Christmas bonus and the summer bonus benefits are provided by the Commonwealth statutes. The Christmas bonus and the summer bonus paid by the Commonwealth to the retired employees during the year ended June 30, 2012 was $600 per retiree and the total amount was approximately $97.3 million. These benefits are recorded as expenditures when paid in the general fund.

Healthcare benefits are provided through insurance companies whose premiums are paid by the retiree with the Commonwealth providing a matching share of not more than $100 per month for each retiree. During the year ended June 30, 2012, the cost of providing healthcare benefits amounted to approximately $131.8 million.

(w) Compensated Absences

The vacation policy of the Commonwealth generally provides for the accumulation of 2.5 days per month, except for the teachers who accrue 4 days per month. Vacation time accumulated is fully vested to the employees from the first day of work up to a maximum of 60 days. Employees accumulate sick leave generally at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated unpaid vacation leave at the current rate regardless of years of service; and for all accumulated unpaid sick if the employee has at least 10 years of service with the Commonwealth. Accrued compensated absences of the primary government at June 30, 2012 amounting to approximately $1.4 billion are presented in the statement of net assets (deficit). Compensated absence accumulation policies for the blended component units and discretely presented component units vary from entity to entity based on negotiated agreements and other factors agreed upon between the management of these entities and their employees.

The Public Service Personnel Law requires certain component units and the primary government of the Commonwealth to annually pay the employees the accumulated vacation and sick leave earned in excess of the limits mentioned above.

(x) Termination Benefits

The Commonwealth accounts for termination benefits in accordance with GASB Statement No. 47, *Accounting for Termination Benefits.* Pursuant to the provisions of GASB Statement No. 47, in financial statements prepared on the accrual basis of accounting, employers should recognize a liability and expense for voluntary termination benefits (for example, early-retirement incentives) when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination benefits (for example, severance benefits) should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated. In financial statements prepared on the modified accrual basis of accounting, liabilities and expenditures for termination benefits should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources.

(y) Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures are recorded to reflect the use of the applicable spending appropriations, is used by the general fund during the fiscal year to control expenditures. The cost of those goods received and services rendered on or before June 30 are recognized as expenditures. For US GAAP reporting purposes, encumbrances outstanding at year end are reported within the restricted, committed, assigned, and unassigned fund balance classifications and do not constitute expenditures or liabilities on US GAAP basis because the commitments will be honored during the subsequent year. The unencumbered balance of any appropriation of the general fund at the end of the fiscal year lapses immediately. Appropriations, other than in the general fund, are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

(z) Interfund and Intraentity Transactions

The Commonwealth has the following types of transactions among funds:

Interfund Transfer — Legally required transfers that are reported when incurred as transfer in by the recipient fund and as transfer out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. However, these transfers and related amounts receivable and payable are considered internal balances and activities that have been eliminated in the government wide financial statements.

Intraentity Transactions — There are two types of intraentity transactions. First, the flow of resources between the primary government and its component units and among the component units. These flow of resources and the related outstanding balances are reported as if they were external transactions. However, flow of resources between the primary government and blended component units are classified as interfund transactions, as described above. Second, the intraentity balances between the primary government funds and discretely presented component units that are tantamount to long-term debt financing. The primary government's liability is reported in the statement of net assets, the proceeds in the primary government's funds, and the asset in the discretely presented component units' statement of net assets.

(aa) Lottery Revenue and Prizes

The revenue, expenses, and prizes awarded by the Lottery of Puerto Rico and the Additional Lottery System, reported within the lotteries enterprise fund, are recognized as drawings are held. Moneys collected prior to June 30 for tickets related to drawings to be conducted subsequent to June 30 are reported as deferred revenue. Unpaid prizes awarded as of June 30 are reported as a fund liability. Unclaimed prizes expire after six months and are transferred to the general fund.

(ab) Risk Management

The Commonwealth purchases commercial insurance covering casualty, theft, tort claims, and other losses for the primary government, most component units, and the municipalities. The Commonwealth is reimbursed for premium payments made on behalf of the component units and the municipalities. The current insurance policies have not been canceled or terminated. For workers' compensation, the Commonwealth has a discretely presented component unit, the SIFC,

which provides workers' compensation to both public and private employees. In the past three years, the Commonwealth has not settled claims that exceed insurance coverage.

Certain component units combine commercial insurance with internal self-insurance funds covering specific risks related to their specialized operations.

(ac) Tobacco Settlement

The Commonwealth follows GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issue*, as amended by GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, (the "TB"), which provides accounting guidance for entities created to obtain the rights to all or a portion of future tobacco settlement resources and for the governments that create such entities.

The TB indicates that the entity created to obtain the rights, which is called the Tobacco Settlement Authority (TSA), should be considered a component unit of the government that created it and the component unit should be blended. The TB also states that the government receiving the payments from the tobacco companies under the agreement, which are called settling governments, should recognize a receivable and revenue for tobacco settlement resources when an event occurs. The event that results in the recognition of an asset and revenue by the settling government is the domestic shipment of cigarettes. The TB indicates that accruals should be made by the settling government and TSAs for estimated shipments from January 1 to their respective fiscal year ends, since the annual payments are based on a calendar year. However, under the modified accrual basis of accounting at the fund level, revenue should be recognized only to the extent that resources are available.

(ad) Reclassifications

Certain reclassifications have been made to the information presented in the separately issued financial statements of certain blended component units and agencies included within the special revenue, debt service, capital projects, proprietary funds, and discretely presented component units to conform to the accounting classifications used by the Commonwealth in the basic financial statements.

(ae) Use of Estimates

The preparation of the basic financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(af) New Accounting Standards Adopted

The following new accounting standards were adopted by the Commonwealth effective July 1, 2011:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This Statement addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple employers other postemployment benefit (OPEB) plans. The provisions of this Statement related to the use and reporting of the alternative measurement

method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. There was no impact on the Commonwealth's financial statements as a result of the implementation of GASB Statement No. 57.

- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions — An Amendment of GASB Statement No. 53*. This Statement clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The requirements of GASB Statement No. 64 are effective for financial statements for periods beginning after June 15, 2011. There was no impact on the Commonwealth's financial statements as a result of the implementation of GASB Statement No. 64.

(ag) Future Adoption of Accounting Pronouncements

The GASB has issued the following accounting standards that have effective dates after June 30, 2012:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This Statement improves financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which: (i) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a facility) in exchange for significant consideration; and (ii) the operator collects and is compensated by fees from third parties. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Within the Commonwealth's reporting entity, SCAs are normally entered at the component unit level rather than at the primary government. The SCA expected to have the most significant impact for the Commonwealth during fiscal year 2013, in terms of quantity and public exposure, is the one closed by PRPA on February 28, 2013 regarding the concession of the Luis Muñoz Marin International Airport. Refer to note 25(j) for further information on this SCA.

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. This Statement improves financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The most significant effects of the amendments are to: 1) increase the emphasis on financial relationships by raising the bar for inclusion; 2) refocus and clarify the requirements to blend certain component units, and 3) improve the recognition of ownership interests (joint ventures, component units, investments). This Statement is effective for financial statements for periods beginning after June 15, 2012.

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (i) FASB Statements and Interpretations; (ii) Accounting Principles Board Opinions; and (iii) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. Also, and most importantly, this Statement eliminates the former election option provided in paragraph 7 of Statement No. 20 for enterprise funds and business-types activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. In other words, the enterprise funds and business type activities within the Commonwealth's reporting entity can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including Statement No. 62. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* The Statement provides financial reporting guidance for deferred outflows of resources, which is a consumption of net assets by the government that is applicable to a future reporting period and deferred inflows of resources which is an acquisition of net assets by the government that is applicable to a future reporting period. GASB Statement No. 63 also amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The requirements of GASB Statement No. 63 are effective for financial statements for periods beginning after December 15, 2011.

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities, or vice versa. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012.

- GASB Statement No. 66, *Technical Corrections 2012.* The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing

activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Stat*ement No. 34, Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*. This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues,* respectively. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012.

- GASB Statement No. 67, *Financial Reporting for Pension Plans — an amendment of GASB Statement No. 25.* The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013.

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions — an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. Once adopted, the Commonwealth will be required to report a liability equivalent to the amount by which the total pension liability exceeds the pension plan's net assets (now referred to as plan net position) available for paying benefits in its accrual-based financial statements (the government wide statement of net position). See Note 20(g).

- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

  The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term *operations* for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

  A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.

- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve accounting and financial reporting by state and local government that extend and receive nonexchange financial guarantees. This Statement requires a governmental entity guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. Certain qualitative factors should be considered when evaluating the likelihood of a guaranty payment, such as: initiation of a bankruptcy process, breach of a debt contract in relation to the guaranteed obligation and indications of significant financial difficulty such as failure to pay agents or trustees. This Statement is effective for financial statements for periods beginning after June 15, 2013. Although the Commonwealth's primary government currently has several outstanding nonexchange guarantees as disclosed in note 16, the specific impact on the Commonwealth's basic financial statements upon future adoption on July 1, 2013 has not yet been determined.

The impact of most of these statements on the Commonwealth's basic financial statements has not yet been determined.

2. COMPONENT UNITS

The Commonwealth follows the provisions of GASB Statement No. 14, as amended by GASB Statement No. 39. The basic financial statements of the Commonwealth include the financial statements of the following component units that were audited by other auditors:

Blended component units:

Public Buildings Authority
Puerto Rico Maritime Shipping Authority
The Children's Trust

Discretely presented component units:

Agricultural Services and Development Administration
Automobile Accidents Compensation Administration
Cardiovascular Center Corporation of Puerto Rico and the Caribbean
Company for the Integral Development of the "Península de Cantera"
Corporation for the "Caño Martín Peña" ENLACE Project
Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico
Culebra Conservation and Development Authority
Economic Development Bank for Puerto Rico
Employment and Training Enterprises Corporation
Farm Insurance Corporation of Puerto Rico
Fine Arts Center Corporation
Governing Board of the 9-1-1 Service
Institute of Puerto Rican Culture
Institutional Trust of the National Guard of Puerto Rico
Land Authority of Puerto Rico
Local Redevelopment Authority for Roosevelt Roads Puerto Rico
Musical Arts Corporation
National Parks Company of Puerto Rico
Port of the Americas Authority
Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives
Puerto Rico Aqueduct and Sewer Authority
Puerto Rico Conservatory of Music Corporation
Puerto Rico Council on Education
Puerto Rico Electric Power Authority
Puerto Rico Health Insurance Administration
Puerto Rico Highways and Transportation Authority
Puerto Rico Industrial Development Company
Puerto Rico Industrial, Tourist, Educational, Medical and Environmental, Control Facilities Financing Authority
Puerto Rico Infrastructure Financing Authority
Puerto Rico Land Administration
Puerto Rico and Municipal Islands Maritime Transport Authority
Puerto Rico Medical Services Administration
Puerto Rico Metropolitan Bus Authority
Puerto Rico Municipal Finance Agency
Puerto Rico Ports Authority
Puerto Rico Public Broadcasting Corporation

Puerto Rico Public Private Partnership Authority
Puerto Rico School of Plastic Arts
Puerto Rico Telephone Authority
Puerto Rico Trade and Export Company
Solid Waste Authority
Special Communities Perpetual Trust
State Insurance Fund Corporation
University of Puerto Rico
University of Puerto Rico Comprehensive Cancer Center

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

(a) Budgetary Control

The Governor is constitutionally required to submit to the Legislature an annual balanced budget of the Commonwealth for the ensuing fiscal year. The annual budget is prepared by the Commonwealth's OMB and takes into consideration the advice provided by the Puerto Rico Planning Board (annual economic growth forecasts and four year capital improvements plan), the Department of the Treasury of the Commonwealth (revenue estimates, accounting records, and the comprehensive annual financial report), GDB (fiscal agent), and other governmental offices and agencies. Section 7 of Article VI of the Constitution of Puerto Rico provides that "The appropriations made for any fiscal year shall not exceed the total revenue, including available surplus, estimated for the said fiscal year, unless the imposition of taxes sufficient to cover the said appropriations is provided by law".

The annual budget, which is developed utilizing elements of program budgeting, includes an estimate of revenue and other resources for the ensuing fiscal year under: (i) laws existing at the time the budget is submitted; and (ii) legislative measures proposed by the Governor and submitted with the proposed budget, as well as the Governor's recommendations as to appropriations that in his judgment are necessary, convenient, and in conformity with the four year capital improvements plan adopted by the Puerto Rico Planning Board.

The Legislature may amend the budget submitted by the Governor but may not increase any items so as to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. Upon passage by the Legislature, the budget is referred to the Governor who may decrease or eliminate any line item but may not increase or insert any new line item in the budget. The Governor may also veto the budget in its entirety and return it to the Legislature with his objections. The Legislature, by two thirds majority in each house, may override the Governor's veto. If a budget is not adopted prior to the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Legislature and the Governor, is automatically renewed for the ensuing fiscal year until a new budget is approved by the Legislature and the Governor. This permits the Commonwealth to continue making payments for its operating and other expenses until the new budget approved. The appropriated annual budget for fiscal year 2012 amounted to approximately $9.3 billion. The Legislature also made several special budget appropriations to the general fund throughout the year, which amounted to approximately $872 million.

The OMB has authority to amend the budget within a department, agency, or government unit without legislative approval.

For budgetary purposes, encumbrance accounting is used. The encumbrances (that is, purchase orders and contracts) are considered expenditures when a commitment is made. For US GAAP

reporting purposes, encumbrances outstanding at year end are reported within the restricted, committed, assigned, and unassigned fund balance classifications and do not constitute expenditures or liabilities on a US GAAP basis because the commitments will be honored during the subsequent year. The unencumbered balance of any appropriation of the general fund at the end of the fiscal year lapses immediately. Appropriations, other than in the general fund, are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending. In addition, for budgetary purposes, revenues are recorded when cash is received.

During any fiscal year in which the resources available to the Commonwealth are insufficient to cover the appropriations approved for such year, the Governor may take administrative measures to reduce expenses and submit to both houses of the Legislature a detailed report of any adjustment necessary to balance the budget, or make recommendations to the Legislature for new taxes or authorize borrowings under provisions of existing legislation or take any other necessary action to meet the estimated deficiency. Any such proposed adjustments shall give effect to the “priority norms” established by law for the disbursement of public funds in the following order of priority: (i) the payment of the interest on and amortization requirements for public debt (Commonwealth general obligations and guaranteed debt for which the Commonwealth’s guarantee has been exercised); (ii) the fulfillment of obligations arising out of legally binding contracts, court decisions on eminent domain, and other unavoidable obligations to protect the name, credit and full faith of the Commonwealth; (iii) current expenditures in the areas of health, protection of persons and property, education, welfare and retirement systems; and (iv), all other purpose.

In addition, the Legislature may direct that certain revenue be retained and made available for spending within a specific appropriation account. Generally, expenditures may not exceed the level of spending authorized for an individual department. However, the Commonwealth is statutorily required to pay debt service, regardless of whether such amounts are appropriated. Appropriations are enacted for certain departments, agencies, and government units included in the general fund.

For these funds, a statement of revenue and expenditures — budget and actual budget basis — general fund is included. Appropriations for capital projects are made for each bond issue and the authorization continues for the expected construction period.

The OMB has the responsibility to ensure that budgetary spending control is maintained on an individual department basis. OMB may transfer part or all of any unencumbered balance within a department to another department subject to legislative approval. Budgetary control is exercised through the Puerto Rico Integrated Financial Accounting System (PRIFAS). PRIFAS ensures that encumbrances or expenditures are not processed if they exceed the department’s total available spending authorization, which is considered its budget. The legal level of budgetary control is at the individual department level for general fund expenditures, principal and interest due for the year for the debt service fund, and by bond authorization for capital expenditures.

(b) Budget/US GAAP Reconciliation

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity, timing, and basis differences in the excess (deficiency) of revenue and other financing sources over expenditures and other financing uses for the year ended June 30, 2012 is presented below for the general fund (expressed in thousands):

Deficiency of revenues and other financing sources under expenditures and other financing uses — budget basis	$ (699,611)
Entity differences-excess (deficiency) of revenues and other financing sources under expenditures and other financing uses for:	
Nonbudgeted funds	196,175
Inclusion of agencies with independent treasuries	(3,339)
Timing differences:	
Adjustment for encumbrances	254,080
Current year expenditures against prior year encumbrances	(194,772)
Basis of accounting differences:	
Net decrease in taxes receivable (net of tax refunds and deferred revenues)	(345,189)
Net decrease in other receivables	(63,510)
Deficiency of revenues and other financing sources under expenditures and other financing uses — US GAAP basis	$ (856,166)

(c) Deficit Net Assets

The following activities, funds, and discretely presented component units reflect deficit fund balance/net assets at June 30, 2012 (expressed in thousands):

Primary Government:	
Governmental activities	$ 40,000,636
General fund	1,106,556
Enterprise fund-Lotteries	67,938
Component units:	
Puerto Rico Infrastructure Financing Authority	1,526,404
Puerto Rico Electric Power Authority	515,686
Special Communities Perpetual Trust	255,651
Puerto Rico Medical Services Administration	227,736
Puerto Rico Health Insurance Administration	153,980
Agricultural Enterprises Development Administration	97,991
Cardiovascular Center Corporation of Puerto Rico and the Caribbean	42,899
Automobile Accidents Compensations Administration	34,662
Puerto Rico Metropolitan Bus Authority	25,336
Puerto Rico Tourism Company	14,285
Puerto Rico and Municipal Islands Maritime Transport Authority	10,655
Puerto Rico Public Private Partnerships Authority	6,616
Musical Arts Corporation	4,586
Employment and Training Enterprises Corporation	2,119

The Commonwealth's governmental activities show a deficit of approximately $40 billion, mostly attributed to the Commonwealth outstanding bonds amounting to approximately $33.2 billion and net pension obligation amounting to approximately $11.2 billion, which are recognized in the statement of net assets (deficit). The deficit is attributable to the accumulated effect of high operating expenses in the government, including the funding of the Retirement System's cash flows deficiencies along with a decrease in estimated revenues as well as the primary government issuing debt, the proceeds of which are to certain extent transferred to component units and to other governments. On the other hand, the discretely presented component units report net assets of approximately $8.9 billion. This inverse relationship between the governmental activities and component units' net assets reveal the operational structure of the Commonwealth where the primary government issues debt, the proceeds of which are predominantly transferred to the component units and to other governments, that are not presented in these basic financial statements, to finance their capital projects and other operational needs. The Commonwealth includes within the annual budgetary appropriation process the necessary funds to cover the annual debt service requirements of the aforementioned debt, most of which are the result of Act No. 164 of December 17, 2001, described in Note 15(d).

Governmental Activities also include COFINA's deficit amounting to $15.5 billion principally attributed to bonds payable amounting to $16.1 billion; the proceeds of which were used to pay obligations of the Commonwealth of Puerto Rico and other uses. In an effort to address the Commonwealth's fiscal difficulties, the current administration is committed to research and pursue solutions to improve the Commonwealth's competitive economic performance and the quality of life for its people. The Commonwealth's economic development program is focused on initiatives aimed at producing more diversified and sustainable economic development. One of the new and immediate economic development initiatives from the current administration was the Jobs Now Act, signed into law on February 10, 2013. It purports to create jobs within 18 months by eliminating certain hurdles that delay and impede the process of establishing new businesses or expanding existing businesses in Puerto Rico, allow better access to capital, and provide incentives under agreements between certain eligible businesses and the Commonwealth through the Puerto Rico Commerce and Exports Company. Under the Jobs Now Act, the Economic Development Bank was ordered to give priority to loan applications submitted by eligible businesses and to create programs to guarantee private financing to such eligible entities.

The Department of the Treasury has also elaborated a strategic plan designed to improve tax collections, foster tax compliance, implement effective enforcement measures, and attack tax evasion. To promote taxpayers' compliance, the Treasury Department has liberalized the procedures to enter into payment plans, offers-in-compromise agreements, and encouraged voluntary disclosure agreements. In addition, the Department of the Treasury has developed initiatives focused on effective enforcement methods, such as improving the efficiency of its audit selection process, the creation of technological solutions to improve collections, and the establishment of cooperation agreements with federal and local governmental agencies. The Department of the Treasury has also integrated its databases and established a tax intelligence project to identify tax evasion and improve its audit selection process.

Previous initiatives established related to the implementation of a new point of sale system for the collection of the sales and use taxes continue to be enhanced by adding various enforcement and compliance programs. In addition to the above, the current administration is pursuing the automatic collection of the sales and use tax directly at the point of sale. Such initiative is already in the design and planning phase and is expected to be operational sometime during fiscal year 2014. The Department of the Treasury has also been actively seizing the assets of businesses that are delinquent on their sales and use tax payments, and has entered into agreements with various municipalities to conduct simultaneous field visits and joint audits in order to increase the effectiveness of the sales and use enforcement efforts as the ones described above.

The Department of the Treasury has also implemented a temporary measure to collect on payroll and employer withholding debts. This measure allows employers to enter into payment plans with the Treasury Department, subject to the employer making a down payment of 25%, in the case of payroll debts, and 40%, in the case of employer withholding debts, of the total outstanding debt. Additional revenue enhancing measures such as the sale of tax accounts receivable are being actively planned to further reduce the deficit for the fiscal year 2014.

On April 4, 2013, the Governor of Puerto Rico signed into law Act 3 of 2013 (“Act 3”), which adopted a comprehensive reform of the Employees Retirement System of the Commonwealth, the largest of the three Commonwealth retirement systems that are funded primarily with budget appropriations from the Commonwealth’s General Fund. Based on current census data, expectations of market conditions and other actuarial information provided by consulting actuaries, the changes instituted by Act No. 3, along with the additional annual contribution of $140 million to be received from the Commonwealth during the next 20 years, will be sufficient to cover the Employees Retirement System’s current and future obligations. (See Note 25 for further description about this comprehensive reform.)

4. RESTATEMENTS AND CHANGES IN REPORTING ENTITY

Subsequent to the issuance of the Commonwealth's basic financial statements for the year ended June 30, 2011, management of various component units determined that their respective 2011 financial statements were misstated. Also, during the year ended June 30, 2012, other government agencies and discretely presented component units experienced changes in reporting entity caused by various mergers.

Changes in Reporting Entities — Primary Government — The following table summarizes the changes to net assets (deficit) at the beginning of the year as previously reported in the statement of activities by the primary government as a result of the merger between the Puerto Rico Council on General Education, an agency of the primary government, and the Puerto Rico Council on Higher Education, a former discretely presented component unit, into the Puerto Rico Council on Education, a newly formed discretely presented component unit; and the merger of the Right to Employment Administration, a former discretely presented component unit, into the Department of Labor and Human Resources of the Commonwealth, and agency of the primary government, presented in the governmental activities (expressed in thousands):

	Primary Government	
	Governmental Activities	Totals Primary Government
Net assets (deficit) — beginning of year, as previously reported	$ (34,508,201)	$ (33,677,975)
Changes in reporting entities:		
Puerto Rico Council on Education	323	323
Department of Labor and Human Resources	(1,257)	(1,257)
Net assets (deficit) — beginning of year, as restated	$ (34,509,135)	$ (33,678,909)

The following table summarizes the changes to fund balances (deficit) at the beginning of the year as previously reported in the statement of revenues, expenditures, and changes in fund balances (deficit) by the governmental funds as a result of the merger between the Puerto Rico Council on General Education, an agency within the general fund, and the Puerto Rico Council on Higher Education, a former discretely presented component unit, into the Puerto Rico Council on Education, a newly formed discretely presented component unit; and the merger of the Right to Employment Administration, a former discretely presented component unit, into the Department of Labor of the Commonwealth, an agency within the general fund (expressed in thousands):

	General Fund	Total Governmental
Fund balances (deficit) — beginning of year — as previously reported	$ (251,060)	$ 1,648,038
Changes in reporting entities:		
Puerto Rico Council on Education	(122)	(122)
Department of Labor and Human Resources	792	792
Fund balances (deficit) — beginning of year, as restated	$ (250,390)	$ 1,648,708

Component Units Restatements — Discretely Presented Component Units — The following table summarizes the changes to net assets at the beginning of the year as previously reported in the statement

of activities by certain discretely presented component units. The changes resulted primarily from changes in reporting entities as a result of the mergers described above, and restatements to correct errors in the prior year's financial statements of certain component units (expressed in thousands):

Net assets — beginning of year — as previously reported	$9,541,972
Changes in reporting entities:	
Puerto Rico Council on Education	(323)
Department of Labor and Human Resources	1,257
Restatements of nonmajor component units	(55,870)
Net assets — beginning of year — as restated	$9,487,036

5. PUERTO RICO GOVERNMENT INVESTMENT TRUST FUND (PRGITF)

PRGITF was created by Act No. 176, of August 11, 1995, and began operations on December 4, 1995. PRGITF is a no load diversified collective investment trust administered by GDB that was created for the purpose of providing eligible governmental investors of Puerto Rico with a convenient and economical way to invest in a professionally managed money market portfolio. PRGITF is not an investment company or a mutual fund and is not subject to regulation or registration under the investment company Act of 1940. Units issued by PRGITF are not subject to regulation or registration under the Securities and Exchange Act of 1933, as amended, because the units are issued by a government entity. The deposits on hand and the investments purchased are not collateralized, secured, or guaranteed by the Commonwealth or any of its agencies, instrumentalities, or political subdivisions.

PRGITF is considered a 2a7-like external investment pool, and as such, reports its investment at amortized cost.

The investment securities on hand at June 30, 2012, consisted of certificates of deposit and time deposits, money market funds, securities purchased under agreements to resell, corporate obligations, commercial paper, and U.S. government and sponsored agencies obligations, all of which may be considered highly liquid. However, the participants' investments are subject to the ability of PRGITF to receive payment from the securities' issuer when due. The liquidity of certain investments and changes in interest rates may affect PRGITF's yield and the fair value of its investments.

The dollar amount of the deposits on hand at June 30, 2012 at $1.00 per unit of participation, was reported in the individual financial statements of each of the participants, and combined in the basic financial statements as follows (expressed in thousands):

	Balance Outstanding	Percentage of Total
Primary government:		
Puerto Rico Sales Tax Financing Corporation	$ 52,286	14.08 %
Commonwealth	131,033	35.29
The Children's Trust	23,201	6.25
Public Buildings Authority	797	0.21
Total for primary government	207,317	55.83
Discretely presented component units:		
Government Development Bank for Puerto Rico	119,191	32.10
Puerto Rico Aqueduct and Sewer Authority	32,988	8.89
Puerto Rico Infrastructure Financing Authority	9,493	2.56
State Insurance Fund Corporation	1,039	0.28
Solid Waste Authority	622	0.17
Puerto Rico Electric Power Authority	310	0.08
Puerto Rico Highways and Transportation Authority	171	0.05
Total for discretely presented component units	163,814	44.13
Other governmental entities	139	0.04
Total for all participants	$ 371,270	100.00 %

The deposits at June 30, 2012 were invested in securities with a cost that approximates fair value, plus accrued interest, for approximately $371.3 million. The external portion of PRGITF was not considered significant for separate reporting in the accompanying basic financial statements.

As June 30, 2012, the PRGITF's investments were rated A1 or AA+ by Standard and Poor's. U.S. Government securities carry the explicit guarantee of the U.S. Government.

Following is a table of the investments and other assets held at June 30, 2012, presented at amortized cost (expressed in thousands):

Securities purchased under agreements to resell	$ 113,389
Commercial paper	102,937
U.S. government and sponsored agencies obligations	66,656
Treasury notes	42,524
Money market funds	18,942
Certificates of deposit and time deposits	14,800
Corporate obligations	10,723
Other assets in excess of liabilities	1,299
Total	$ 371,270

6. DEPOSITS AND INVESTMENTS

Pursuant to the provisions of Act No. 91 of March 29, 2004, the primary government may invest in different types of securities, including domestic, international, and fixed income securities, among others.

The primary government maintains a cash and investment pool that is available for use by all funds, except for the fiduciary funds. Each fund's portion of this pool is reported on the statement of net assets as cash and cash equivalents. The fiduciary funds' investments are held and managed separately from those of other primary government funds.

Primary Government — Cash and cash equivalents consist of demand deposits, interest-bearing accounts, certificates of deposit, bank investment contracts, and deposits invested in PRGITF (see Note 5).

The carrying amount of deposits of the primary government at June 30, 2012 consists of the following (expressed in thousands):

	Carrying Amount			Bank
	Unrestricted	Restricted	Total	Balance
Commercial banks	$ 442,484	$ 1,049,644	$ 1,492,128	$ 1,468,925
Governmental banks	482,465	1,497,581	1,980,046	2,258,594
U.S. Treasury	-	382,883	382,883	382,883
Total	$ 924,949	$ 2,930,108	$ 3,855,057	$ 4,110,402

Custodial credit risk is the risk that in the event of bank failure, the primary government's deposit might not be recovered. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by banks in the Commonwealth's name. There is no formal policy for custodial credit risk for cash accounts opened with commercial banks outside of Puerto Rico.

At year-end, the Commonwealth's bank balance of deposits in commercial banks amounting to approximately $1.5 billion was covered by federal depository insurance or by collateral held by the Commonwealth's agent in the Commonwealth's name. Deposits of approximately $382.9 million with the U.S. Treasury represent unemployment insurance taxes collected from employers that are transferred to the federal Unemployment Insurance Trust Fund in the U.S. Treasury. These deposits are uninsured and uncollateralized. The bank balance of deposits in governmental banks, which as of June 30, 2012 amounted to approximately $2.3 billion are also uninsured and uncollateralized. These deposits in governmental banks are maintained with GDB and EDB. Deposits maintained in GDB and EDB are exempt from the collateral requirement established by the Commonwealth and thus represent a custodial credit risk, because in the event of GDB's or EDB's failure, the Commonwealth may not be able to recover these deposits.

Deposits in governmental banks represent the balance of interest and noninterest-bearing accounts in GDB and EDB. The deposit liability at GDB and EDB is substantially related to deposits from other component units and of the Commonwealth. The deposit liability does not agree with the governmental cash balances shown above because of reconciling items such as outstanding checks and deposits in transit.

The bank balance of GDB's and EDB's deposits at June 30, 2012 is broken down as follows (expressed in thousands):

Primary government	$2,126,764
Discretely presented components units	1,134,134
Total pertaining to the Commonwealth	3,260,898
Municipalities of Puerto Rico	693,463
Other nongovernmental entities	62,087
Escrow accounts	733,534
Certificates of deposit	1,860,566
Total deposits per GDB and EDB	$6,610,548

Investments:

Custodial Credit Risk — Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the transaction, the primary government may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The governmental activities, had approximately $83,684,000 in nonparticipating investment contract (guaranteed investment contract) that were exposed to custodial risk as uninsured, unregistered and held by the counterparties or by their trust departments or agents, but not in the primary government's name.

All of the Commonwealth's investments in U.S. Treasury securities and mortgage-backed securities guaranteed by Government National Mortgage Association (GNMA) carry the explicit guarantee of the U.S. government and are presented as "No Risk" in the credit risk tables.

Governmental Activities — The following table summarizes the type and maturities of investments held by the governmental activities at June 30, 2012 (expressed in thousands). Investments by type in any issuer representing 5% or more of total investments have been separately disclosed. Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

	Maturity (In Years)				
Investment Type	**Within One Year**	**After One to Five Years**	**After Five to Ten Years**	**After Ten Years**	**Total**
U.S. government securities	$416,927	$ 20,157	$ -	$ -	$ 437,084
U.S. government agencies notes — FNMA	-	325,374	-	-	325,374
U.S. corporate bonds and notes	22,906	-	-	-	22,906
PRGITF	75,486	-	-	-	75,486
External investment pools — fixed–income securities:					
Dreyfus Government Cash Management	129,497	-	-	-	129,497
Others	-	-	-	26,838	26,838
Nonparticipating investment contracts — Bayerische Hypo-und Vereinsbank AG	-	-	-	83,684	83,684
Total debt securities and fixed–income investment contracts	$644,816	$345,531	$ -	$110,522	$1,100,869
Reconciliation to the government-wide statement of net assets (deficit):					
Unrestricted investments and investment contracts					$ 23,268
Restricted investments and investment contracts					1,077,601
Total					$1,100,869

The credit quality ratings (Standard and Poor's) and fair value by investment type for the investments reported by the governmental activities at June 30, 2012 consist of the following (expressed in thousands):

Investment Type	Credit Risk Rating: No Risk	AAA To A-	BBB+ to B-	CCC	Not Rated	Total
U.S. government securities	$437,084	$ -	$ -	$ -	$ -	$ 437,084
U.S. government agencies notes — FNMA	-	325,374	-	-	-	325,374
U.S. corporate bonds and notes	-	22,906	-	-	-	22,906
PRGITF	-	75,486	-	-	-	75,486
External investment pools — fixed–income securities:						
Dreyfus Government Cash Management	-	129,497	-	-	-	129,497
Others	-	26,838	-	-	-	26,838
Nonparticipating investment contracts — Bayerische Hypo-und Vereinsbank AG	-	83,684	-	-	-	83,684
Total debt securities and fixed–income investment contracts	$437,084	$663,785	$ -	$ -	$ -	$1,100,869

The Commonwealth classified approximately $131.8 million of investments presented in PRGITF (see Note 5) as cash and cash equivalents.

Business Type Activities — The following table summarizes the type and maturities of investments held by the business-type activities at June 30, 2012 (expressed in thousands). Investments by type in any issuer representing 5% or more of total investments have been separately disclosed. Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

Investment Type	Maturity (In Years): Within One Year	After One to Five Years	After Five to Ten Years	After Ten Years	Total
U.S. government and agency securities	$183	$ -	$1,994	$ 946	$ 3,123
Mortgage and asset-backed securities:					
GNMA	-	-	-	1,892	1,892
FNMA	-	-	10	3,220	3,230
Federal Home Loan Mortgage Corporation (FHLMC)	-	-	318	3,688	4,006
Commercial mortgages	28	-	-	1,781	1,809
Asset–backed securities	-	1,124	106	-	1,230
U.S. corporate bonds and notes	-	2,286	5,443	1,943	9,672
Foreign corporate and government bonds and notes	-	242	687	-	929
U.S. municipal notes	-	-	56	721	777
Total debt securities and fixed–income investment contracts	$211	$3,652	$8,614	$14,191	26,668
External investment pools — equity securities:					
SPDR S&P 500 ETF Trust					6,108
MFC ISHARES TR Russell 2000 index Fund					972
MFC ISHARES TR MSCI EAFE Index Fund					68
MFC Vanguard Tax-Managed Intl Fund					722
Total					$34,538
Reconciliation to the government-wide statement of net assets (deficit):					
Unrestricted investments and investment contracts					$ -
Restricted investments and investment contracts					34,538
Total					$34,538

The credit quality ratings (Standard and Poor's) and fair value by investment type for the investments reported by the business-type activities at June 30, 2012 consist of the following (expressed in thousands):

	Credit Risk Rating				
Investment Type	**No Risk**	**AAA To A-**	**BBB+ to B-**	**Not Rated**	**Total**
U.S. government securities	$3,123	$ -	$ -	$ -	$ 3,123
Mortgage and asset-backed securities:					
GNMA	1,892	-	-	-	1,892
FNMA	-	3,230	-	-	3,230
FHLMC	-	4,006	-	-	4,006
Commercial mortgages	-	1,546	-	263	1,809
Asset–backed securities	-	451	-	779	1,230
U.S. corporate bonds and notes	-	6,602	3,070	-	9,672
Foreign corporate and government bonds and notes	-	744	185	-	929
U.S. municipal notes	-	777	-	-	777
Total debt securities	$5,015	$17,356	$3,255	$1,042	$26,668

Component Units — Cash and cash equivalents of the component units at June 30, 2012 consist of (expressed in thousands):

	Carrying Amount			Bank
	Unrestricted	**Restricted**	**Total**	**Balance**
Commercial banks	$1,682,465	$1,609,710	$3,292,175	$3,253,580
Governmental banks	556,912	545,081	1,101,993	1,178,781
Total	$2,239,377	$2,154,791	$4,394,168	$4,432,361

Cash and cash equivalents consist of demand deposits, interest-bearing accounts, certificates of deposit, and bank investment contracts.

Custodial credit risk is the risk that, in the event of bank failure, the component unit's deposits might not be recovered. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. There is no formal policy for custodial credit risk for cash accounts opened with commercial banks outside of Puerto Rico.

Deposits maintained in GDB and EDB are exempt from the collateral requirement established by the Commonwealth and, thus ,represent a custodial credit risk because in the event of GDB's or EDB's failure, the Commonwealth may not be able to recover the deposits.

As of June 30, 2012, the component units had approximately $1.2 billion of cash and cash equivalents that were exposed to custodial credit risk as uninsured and uncollateralized.

Investments — The component units' investment policies allow management to purchase or enter into the following investment instruments:

- U.S. government and agencies obligations
- Certificates of deposit and time deposits

- Bankers' acceptances
- Obligations of the Commonwealth of Puerto Rico and municipalities
- Federal funds sold
- Securities purchased under agreements to resell ("repurchase agreements")
- World Bank securities
- Corporate debt, including investment contracts
- External investment pools
- Stock of corporations created under the laws of the United States of America or the Commonwealth
- Options, futures, and interest-rates swap agreements for hedging and risk control purposes, as well as for the creation of synthetic products that qualify under any of the foregoing investment categories.
- Open-end mutual funds with acceptable underlying assets and rated AAA by Standard & Poor's or Aaa by Moody's Investors Service.
- A few component units, principally SIFC, are also allowed to enter into foreign currency investments, under certain limitations.

The component units' investment policies establish limitations and other guidelines on amounts to be invested in the aforementioned investment categories and by issuer/counterparty and on exposure by country. In addition, such policies provide guidelines on the institutions with which investment transactions can be entered into.

The component units' investment policies provide that investments transactions shall be entered into only with counterparties that are rated BBB+/A-1 or better by the Standard & Poor's or equivalent rating by Fitch or Moody's Investors Service, depending on the type and maturity of the investment and the counterparty to the transaction. In addition, the investment policy specifies that no more than 5% of a manager's assets at fair value shall be invested in the securities of any single issuer.

The following table summarizes the type and maturities of investments held by the component units at June 30, 2012 (expressed in thousands). Investments by type in any issuer representing 5% or more of total investments have been separately disclosed. Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

	Maturity (In Years)				
Investment Type	**Within One Year**	**After One to Five Years**	**After Five to Ten Years**	**After Ten Years**	**Total**
U.S. government securities	$ 167,049	$ 894,337	$ 128,837	$ 118,743	$ 1,308,966
U.S. government sponsored agencies notes:					
Federal Home Loan Bank (FHLB)	10,632	420,981	250,041	24,957	706,611
FNMA	120,340	303,146	497,043	98,470	1,018,999
FHLMC	14,091	215,171	126,928	298	356,488
Federal Farm Credit Bank (FFCB)	-	127,683	1,612	35,329	164,624
Other	962	260	3,419	757	5,398
Mortgage and asset–backed securities:					
GNMA	359	1,733	8,638	319,308	330,038
FNMA	27,749	66,708	26,459	1,442,639	1,563,555
FHLMC	4,632	61,207	11,107	265,360	342,306
Commercial mortgages	-	9,533	5,873	32,845	48,251
Asset–backed securities	-	14,991	4,772	14,317	34,080
Other	98,692	1,502	10,630	123,944	234,768
U.S. corporate bonds and notes	545,008	578,694	151,621	27,715	1,303,038
Foreign government bonds and notes	279	28,945	44,213	383	73,820
U.S. municipal notes	13,262	111,792	275,337	502,715	903,106
Commonwealth agency bonds and notes	145,310	551,373	300,537	591,621	1,588,841
Money market funds	338,952	-	-	-	338,952
Negotiable certificates of deposit	416,864	-	-	-	416,864
Repurchase agreements	262,250	-	-	-	262,250
PRGITF	119,191	-	-	-	119,191
External investment pools — fixed–income securities	131,762	385	-	4,913	137,060
Nonparticipating investment contracts	13,444	-	15,863	324,251	353,558
Others	9,041	5,903	-	11,345	26,289
Total debt securities and fixed–income investment contracts	$2,439,869	$3,394,344	$1,862,930	$3,939,910	11,637,053
Equity securities:					
U.S. corporate stocks					385,518
Non U.S. corporate stocks					8,086
External investment pools — equity securities					89,954
Limited partnership/private equity					165,547
Total					$12,286,158
Reconciliation to the government-wide statement of net assets (deficit):					
Unrestricted investments and investment contracts					$ 7,156,271
Restricted investments and investment contracts					5,129,887
Total					$12,286,158

All investments in U.S. Treasury securities and mortgage-backed securities guaranteed by GNMA carry the explicit guarantee of the U.S. government and are presented as "No Risk" category in the table below. The credit quality ratings for investments held by the component units at June 30, 2012 are as follows (expressed in thousands):

	Credit Risk					
		Rating				
Investment Type	**No Risk**	**AAA To A-**	**BBB+ to B-**	**CCC**	**Not Rated**	**Total**
U.S. government securities	$1,234,932	$ 74,034	$ -	$ -	$ -	$ 1,308,966
U.S. government sponsored agencies notes:						
FHLB	-	706,611	-	-	-	706,611
FNMA	-	1,018,768	-	-	231	1,018,999
FHLMC	-	353,649	2,839	-	-	356,488
FFCB	-	164,624	-	-	-	164,624
Other	-	5,398	-	-	-	5,398
Mortgage and asset–backed securities:						
GNMA	289,072	39,716	-	-	1,250	330,038
FNMA	-	1,479,359	-	-	84,196	1,563,555
FHLMC	-	316,220	410	-	25,676	342,306
Commercial mortgages	-	44,382	229	144	3,496	48,251
Asset–backed securities	-	28,023	-	-	6,057	34,080
Other	-	130,156	101,818	-	2,794	234,768
U.S. corporate bonds and notes	-	683,562	618,848	-	628	1,303,038
Foreign government bonds and notes	-	70,015	1,227	-	2,578	73,820
U.S. municipal notes	-	855,302	43,601	-	4,203	903,106
Commonwealth agency bonds and notes	-	29,163	1,299,216	-	260,462	1,588,841
Money market funds	-	245,508	-	-	93,444	338,952
Negotiable certificates of deposit	17,606	270,047	-	-	129,211	416,864
Repurchase agreements	-	200,000	-	-	62,250	262,250
PRGITF	-	119,191	-	-	-	119,191
External investment pools — fixed–income securities	-	74,764	1,039	-	61,257	137,060
Nonparticipating investment contracts	-	332,713	20,845	-	-	353,558
Others	-	4,272	2,716	-	19,301	26,289
Total debt securities and fixed–income investment contracts	$1,541,610	$7,245,477	$2,092,788	$ 144	$ 757,034	$11,637,053

Certain component units classified approximately $44.6 million of investments presented in PRGITF as cash and cash equivalents.

The component units had approximately $198 million in various types of U.S. Government and agency securities, mortgage-backed securities and other investments that were exposed to custodial credit risk as uninsured, unregistered, and held by the counterparties or by their trust departments or agents, but not in the component units' name.

Foreign Currency Risk — Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. SIFC limits its exposure to foreign currency risk by limiting the total amount invested to 5% of the portfolio. As of June 30, 2012, the SIFC had the following investments denominated in foreign currency (expressed in thousands):

Description	Currency	Fair Value
Common stock:	Australian Dollar	$ 5,351
	British Pound	6,219
	Canadian Dollar	2,014
	DKK	626
	Euro	11,913
	Hong Kong dollar	2,136
	Japanese Yen	17,298
	Norwegian Krone	2,421
	Singapore Dollar	1,461
	Swedish Krona	206
	Swiss Franc	4,304
Preferred stock —	Euro	1,113
Government bonds:	British Pound	4,330
	Euro	2,746
Total		$ 62,138

Fiduciary Funds — Cash and cash equivalents of the fiduciary funds at June 30, 2012 consist of the following (expressed in thousands):

	Carrying Amount			Bank
	Unrestricted	Restricted	Total	Balance
Commercial banks	$ 1,341,950	$ -	$ 1,341,950	$ 1,355,672
Governmental banks	736,459	233,931	970,390	1,038,881
Total	$ 2,078,409	$ 233,931	$ 2,312,340	$ 2,394,553

Cash and cash equivalents consist of demand deposits, interest bearing accounts, certificates of deposit, and bank investment contracts.

Custodial Risk — Custodial credit risk is the risk that, in the event of a bank failure, the fiduciary funds' deposits might not be recovered. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. Deposits with GDB, Bank of New York, and with other non Puerto Rico commercial banks are uninsured and uncollateralized, as these entities are exempt from compliance with the collateralization requirement.

As of June 30, 2012, the fiduciary funds had approximately $1,690 million of cash and cash equivalents that were exposed to custodial credit risk as uninsured and uncollateralized.

Investments — The carrying value of investments held by the Pension Trust Fund as of June 30, 2012, is as follows (in thousands):

Bonds and notes:	
U.S. government and sponsored agencies' securities	$ 334,710
Non U.S. government securities	13,044
Municipal bonds	52,499
COFINA bonds	245,339
U.S. corporate bonds	1,404,522
Non U.S. corporate bonds	34,634
Total bonds and notes	2,084,748
Stocks and non-exchange traded funds:	
U.S. corporate stocks	264,042
Non-U.S. corporate stocks	196,783
Non-exchange traded mutual funds:	
U.S. Equity and other funds	963,169
Fixed income funds:	
U.S.	236,381
Non-U.S.	125,665
Total stocks and non-exchange traded mutual funds	1,786,040
Private equity investments	76,591
Total investments	$ 3,947,379

The Pension Trust Fund's investments are exposed to custodial credit risk, credit risk, concentration of credit risk, foreign currency risk, and interest rate risk. Following is a description of these risks as of June 30, 2012:

Custodial Credit Risk Related to Investments — Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Pension Trust Fund may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2012, securities investments were registered in the name of the Pension Trust Fund and were held in the possession of the Pension Trust Fund's custodian banks, State Street Bank and Trust and Bank of New York Mellon, except for securities lent.

Credit Risk — All fixed-income securities at the time of purchase must be of investment grade quality. All issuances shall be rated investment grade by at least two of the nationally recognized rating agencies. The portfolio is expected to maintain a minimum weighted-average credit quality of either "A" or better using either Standard and Poor's or Moody's Investor Service credit ratings. TRS's investment guidelines prohibit the investments in securities with expected maturity dates beyond 30 years. All fixed-income securities at the time of purchase must be of investment-grade quality. Positions that drift below investment grade should be reported to a management representative of the TRS and monitored carefully. TRS portfolio is not expected to have more than 5% invested in securities that have drifted after purchase below investment-grade quality. JRS investment policy limits the investment in corporate debt securities to the top ratings issued by nationally recognized statistical rating organizations.

The Pension Trust Fund's U.S. government and sponsored agencies' securities portfolio includes approximately $64.2 million of U.S. Treasury notes and approximately $167.5 million of mortgage-backed securities guaranteed by GNMA, which carry the explicit guarantee of the U.S. government.

The Moody's ratings of bonds as of June 30, 2012, excluding U.S. Treasury notes and bonds and mortgage-backed securities guaranteed by GNMA are as follows (in thousands):

Moody's Rating	Investment Type	Fair Value
Aaa	U.S. government and sponsored agencies securities	$ 227,338
Aaa	U.S. corporate bonds	52,523
Aaa	Municipal bonds	8,659
Aaa	U.S. sponsored agencies MBS	60,546
Aaa	Asset-backed securities	3,611
Aaa	Commercial Mortgage	3,379
Aaa	Non U.S. corporate bonds	11,221
Aa1	U.S. corporate bonds	10,865
Aa1	Municipal bonds	945
Aa1	Non U.S. government bond	234
Aa1	Non U.S. corporate bonds	402
Aa2	U.S. corporate bonds	29,044
Aa2	Municipal bonds	9,439
Aa2	U.S. government sponsored agencies securities	151
Aa2	Non U.S. government bond	1,337
Aa2	Non U.S. corporate bonds	606
Aa3	U.S. corporate bonds	65,962
Aa3	Non U.S. government bonds	598
Aa3	Municipal bonds	2,470
A1	Municipal bonds (COFINA Bonds)	245,339
A1	Municipal bonds	5,360
A1	U.S. corporate bonds	120,632
A1	Non U.S. government bonds	1,054
A1	Non U.S. corporate bonds	829
A2	U.S. government and sponsored agencies securities	1,547
A2	U.S. corporate bonds	208,082
A2	Non U.S. government bonds	2,679
A2	Municipal bonds	12,341
A2	Non U.S. corporate bonds	6,718
A3	U.S. government and sponsored agencies securities	1,486
A3	Non U.S. government bonds	2,565
A3	U.S. corporate bonds	207,578
A3	Non U.S. corporate bonds	2,614
A3	Municipal bonds	57
Baa1	U.S. corporate bonds	199,266
Baa1	Municipal bonds	13,946
Baa1	Non U.S. government bonds	1,472
Baa1	Non U.S. corporate bonds	5,422
Baa2	U.S. corporate bonds	307,188
Baa2	Non U.S. government bonds	399
Baa2	Non U.S. corporate bonds	2,452
Baa3	U.S. government and sponsored agencies securities	1,549
Baa3	U.S. corporate bonds	148,287
Baa3	Non U.S. government bonds	82
Baa3	Non U.S. corporate bonds	2,055
Ba1	U.S. corporate bonds	19,392
Ba2	U.S. corporate bonds	6,597
Ba3	U.S. corporate bonds	7,079
B1	U.S. corporate bonds	1,669
B1	Commercial Mortgage	29
B2	U.S. corporate bonds	2,547
B3	U.S. corporate bonds	463
B3	Commercial Mortgage	70
B3	Asset-backed securities	39
Caa1	Commercial Mortgage	101
Caa2	Commercial Mortgage	214
Caa3	Commercial Mortgage	28
NR	Commercial Mortgage	2,635
NR	U.S. corporate bonds	1,388
NR	Non U.S. government bonds	3,064
NR	Non U.S. corporate bonds	1,276
NR	Various	8,054
WR	U.S. corporate bonds	4,506
WR	Non U.S. corporate bonds	600
	Subtotal	2,050,080
	U.S. Treasury notes and bonds	18,921
	Government National Mortgage Association (GNMA)	15,747
	Total bonds and notes	$2,084,748

In addition, the Pension Trust Fund invests in shares of the State Street Global Advisor Intermediate Credit Index Non Lending Fund (the "SSgA Intermediate Fund"). The investment objective of the SSgA Intermediate Fund is to replicate the Barclays Capital U.S. Intermediate Credit Bond Index by investing exclusively in fixed income securities. Shares of the SSgA Intermediate Fund can be redeemed on a daily basis at their net asset value (NAV) and have no redemption restrictions. The Pension Trust Fund's investment in the SSgA Intermediate Fund is included as part of non-exchange traded mutual funds.

Moody's credit ratings for the underlying investments comprising the SSgA Intermediate Fund as of June 30, 2012, are as follows (in thousands):

Moody's Rating	Investment Type	Fair Value
Aaa/Aa1	Government sponsored	$ 43,554
Aa2/Aa3	Government sponsored	9,811
A1/A2	Government sponsored	9,015
A3/Baa1	Government sponsored	12,744
Aa3/A1	Corporate bonds	1,122
A2/A3	Corporate bonds	171,574
A3/Baa1	Corporate bonds	81,786
Baa1/Baa2	Corporate bonds	32,440
Total		$ 362,046

Concentration of Credit Risk — No ERS and JRS investment in marketable securities in any organization represents 5% or more of ERS and JRS net assets held in trust for pension benefits. There are no TRS investments in any one issuer that represent 5% or more of total investments as of June 30, 2012. TRS investment guidelines specify that no more than 5% of a manager's assets at market shall be invested in the securities of any single issuer.

As of June 30, 2012, the Pension Trust Fund owned shares in the SSgA's S&P 500 Flagship Fund (the "S&P 500 Fund"), the SSgA Russell 3000 Index Non Lending Fund (the "Russell 3000 Fund"), and the SSgA Intermediate Fund, as follows (in thousands):

Fund Name	Shares	Fair Value
S&P 500 Fund	192	$ 55,981
Russell 3000 Fund	68,799	907,188
SSgA Intermediate Fund	13,562	362,046
Total		$ 1,325,215

The investment objectives of the S&P 500 Fund and the Russell 3000 Fund are to match the return of the Standard & Poor's 500 Index and the Russell 3000 Index, respectively. Shares of these funds can be redeemed on a daily basis at NAV and have no redemption restrictions. The Pension Trust Fund's investment in these funds is included as part of non-exchange traded mutual funds.

As of June 30, 2012, the investments underlying the S&P 500 Fund, the Russell 3000 Fund, and the SSgA Intermediate Fund had the following sector allocations:

Sector	S&P 500 Fund	Russell 3000 Fund	SSgA Intermediate Fund
Information technology	20 %	19 %	4 %
Health care	12	12	-
Financials	14	16	30
Energy	11	9	5
Consumer staples	11	10	11
Industrials	11	11	6
Consumer discretionary	11	12	5
Utilities	4	4	7
Telecommunication services	3	3	7
Materials	3	4	4
Government sponsored	-	-	21
Totals	100 %	100 %	100 %

Interest Rate Risk — In accordance with their investment policy, ERS and JRS manage their exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for benefit payments, thereby avoiding the need to sell securities on the open market prior to maturity. The Pension Trust Fund is expected to achieve capital preservation and income generation by investing in a diversified portfolio of marketable investment-grade core fixed-income securities. TRS investment guidelines specify that the duration of the portfolio is expected to vary no more than between 75% and 125% of the duration of the respective benchmark.

The contractual maturities of investments in debt securities as of June 30, 2012, are as follow (in thousands):

		Maturity (in Years)				
	Maturity Between	Less than 1 Year	1 to 5 Years	6 to 10 Years	More than 10 Years	Fair Value
U.S. government and sponsored agencies securities	(2013–2051)	$ 16,413	$ 82,280	$ 71,387	$ 164,630	$ 334,710
U.S. corporate bonds	(2013–2067)	63,453	500,454	676,707	163,908	1,404,522
Non-U.S. government bonds	(2014–2042)	-	5,529	4,718	2,797	13,044
Non-U.S. corporate bonds	(2013–2067)	506	20,496	11,970	1,662	34,634
Municipal bonds	(2013–2033)	-	19,593	27,914	4,992	52,499
COFINA bonds	(2043–2048)	-	-	-	245,339	245,339
Total		$ 80,372	$ 628,352	$ 792,696	$ 583,328	$ 2,084,748

As of June 30, 2012, investment maturities as a percentage of total debt securities are as follows:

Maturity	**Maximum Maturity**
Less than one year	3 %
One to five years	31
More than five to ten years	38
More than ten years	28
Total	100 %

Foreign Currency Risk — As of June 30, 2012, ERS investments in the SSgA Intermediate Fund amounting to approximately $241 million represented 31% of the total commingled fund. TRS international portfolio is expected to achieve long-term and aggressive capital appreciation by investing in Core EAFE (Europe Australasia and the Far East) securities. The portfolio is expected to be broadly diversified with respect to exposures to countries, economic sectors, industries, and individual stock. No single issue is expected to exceed 5% (at market) of the portfolio.

The Pension Trust Fund's investments and deposits exposed to foreign currency risk as of June 30, 2012, are as follows:

Investment Type	Local Currency	Fair Value (in thousands)
Foreign currency	Australian Dollar	$ 3
Foreign currency	Euro Currency	326
Foreign currency	Japanese Yen	53
Foreign currency	Singapore Dollar	15
Total cash exposed to foreign currency risk		397
Common stock	Australian Dollar	17,536
Common stock	Canadian Dollar	4,629
Common stock	British Sterling Pound	36,039
Common stock	Danish Krone	7,159
Common stock	Euro Currency	36,469
Common stock	Hong Kong Dollar	7,023
Common stock	Japanese Yen	48,401
Common stock	Norwegian Krone	5,706
Common stock	South Africa Rand	1,174
Common stock	Singapore Dollar	1,766
Common stock	South Korean Won	1,189
Common stock	Swedish Krona	7,142
Common stock	Swiss Franc	19,135
Common stock	Turkish Lira	815
Total common stock		194,183
Preferred stock	Euro Currency	2,600
Total cash and securities exposed to foreign currency risk		$ 197,180

As of June 30, 2012, the composition of the underlying investments in the SSgA Intermediate Fund by country was as follows:

	Currency	Percentage
Europe:		
Germany	Euro	4 %
Switzerland	Swiss Franc	1
United Kingdom	Sterling Pound	4
Total Europe		9
Pacific Basin:		
Australia	Australian Dollar	1
Japan	Japanese Yen	1
Total Pacific Basin		2
Americas:		
Canada	Canada Dollar	5
Mexico	Mexican Peso	2
Brazil	Brazilian Real	2
U.S.	U.S. Dollar	65
Total Americas		74
Supranational	Various	8
Other	Various	7
Total investments		100 %

7. SECURITIES LENDING AND REPURCHASE AGREEMENT TRANSACTIONS

During the year, the pension trust funds, included within the fiduciary funds; the Government Development Bank for Puerto Rico (GDB), the Economic Development Bank (EDB), and the State Insurance Fund Corporation (SIFC), discretely presented component units, entered into securities lending and securities sold with agreements to repurchase transactions. These transactions are explained below:

Pension Trust Funds — The Retirement System participates in a securities lending program, whereby securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, government securities, and/or irrevocable bank letters of credit equal to approximately 102% of the market value of the domestic securities on loan and 105% of the market value of the international securities on loan, with a simultaneous agreement to return the collateral for the same securities in the future. Collateral is marked to market daily, and the agent places a request for additional collateral from brokers, if needed. The custodian bank is the agent for the securities lending program.

At year end, the Retirement System has no credit risk exposure to borrowers because the amounts the Retirement System owes the borrowers (the "collateral") exceeded the amounts the borrowers owe the Retirement System. At June 30, 2012, the collateral received represented 102% of the fair value of the domestic securities lent.

The securities on loan for which collateral was received as of June 30, 2012, consisted of the following (expressed in thousands):

Description	Fair Value of Underlying Securities
U.S. government and sponsored agencies' securities	$ 26,591
U.S. corporate stocks	3,116
U.S. corporate bonds	1,395
Non-U.S. corporate stocks	3,091
Non-exchange traded mutual funds:	
U.S.	34,156
Non U.S.	6,484
Total	$ 74,833

The underlying collateral for these securities had a fair value of approximately $76 million as of June 30, 2012. The collateral received was invested in a short term investment fund sponsored by the custodian bank and is presented as collateral for securities lending transactions in the accompanying statement of fiduciary net assets.

As of June 30, 2012, the distribution of the short-term investment fund by investment type is as follows:

Investment Type	Percentage
Securities bought under agreements to resell	100.00 %

Under the terms of the securities lending agreement, the Retirement System is fully indemnified against failure of the borrowers to return the loaned securities (to the extent the collateral is inadequate to replace the loaned securities) or failure to pay the Retirement System for income distributions by the securities' issuers while the securities are on loan. In addition, the Retirement System is indemnified against loss should the lending agent fail to demand adequate and appropriate collateral on a timely basis.

Component Units:

GDB — The following is selected information concerning securities sold under agreements to repurchase (expressed in thousands):

Carrying amount at June 30, 2012	$ 884,484
Maximum amount outstanding at any month-end	1,962,901
Average amount outstanding during the year	1,268,238
Weighted average interest rate for the year	0.47 %
Weighted average interest rate at year-end	0.81 %

The following summarizes the activity of securities sold under agreements to repurchase for the year ended June 30, 2012 (expressed in thousands):

	Beginning Balance	Issuances	Maturities	Ending Balance
GDB Operating Fund	$ 970,819	$ 15,561,953	$ 15,648,288	$ 884,484

All sales of investments under agreements to repurchase are for fixed terms. In investing the proceeds of securities sold under agreements to repurchase, GDB's policy is for the term to maturity of investments to be on or before the maturity of the related repurchase agreements. At June 30, 2012, the total amount of securities sold under agreements to repurchase mature within one year.

EDB — EDB's investment policies, as authorized by Act number 22 of July 24, 1985, Article 3, allow management to sell securities under agreements to repurchase. The following table summarizes certain information on securities sold under agreements to repurchase (expressed in thousands):

Carrying amount at June 30, 2012	$ 123,925
Average amount outstanding during the year	151,811
Maximum amount outstanding at any month-end	171,210
Weighted average interest rate for the year	1.88 %
Weighted average interest rate at year-end	1.66 %

As of June 30, 2012, securities sold under agreements to repurchase were collateralized with mortgage-backed securities, other government agencies securities, and other investments with a market value of $132.1 million.

The activity for securities sold under agreements to repurchase during 2012 was as follows (expressed in thousands):

	Beginning Balance	Issuances	Maturities	Ending Balance	Amounts Due Within One Year
Securities sold under agreements to repurchase	$ 137,400	$ 957,091	$ 970,566	$ 123,925	$ 104,925

SIFC — The Commonwealth statutes and the SIFC's board of directors' policies permit the SIFC to use its investments to enter into securities lending transactions, whereby securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, securities and/or irrevocable bank letter of credit. The SIFC's securities custodian, JP Morgan Chase Bank, N.A., as agent of the SIFC, manages the securities lending program and receives cash collateral, securities or irrevocable bank letters of credit as collateral. The collateral securities cannot be pledged or sold by the SIFC unless the borrower defaults. The collateral requirement is equal to 102% for securities issued in the United States of America and 105% for securities issued outside of the United States of America, of the fair value of the securities lent. Additional collateral has to be provided by the next business day if it's fair value falls to less than 100% of the fair value of the securities lent. All security loans can be terminated on demand by either the SIFC or the borrower. In lending securities, the term to maturity of the securities loans is matched with the term to maturity of the investment of the cash collateral. Such matching existed at year-end. At year end, the SIFC has no credit risk exposure to borrowers because the amounts the SIFC

owes the borrowers exceed the amounts the borrowers owe SIFC. Contracts with the lending agents require them to indemnify the SIFC if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the SIFC for income distributions by the securities' issuers while the securities are on loan.

Securities lent as of June 30, 2012 had a fair value of $174.5 million and were secured with collateral received with a fair value of $178.4 million. Securities lent for which cash was received as collateral as of June 30, 2012 consist of the following (expressed in thousands):

Description	Fair Value of Underlying Securities
Corporate bonds and notes	$ 33,158
Equity securities	33,256
U.S. sponsored agencies bonds and notes	8,469
U.S. Treasury notes and bonds	34,741
	$ 109,624

Cash collateral received as of June 30, 2012 amounted to $112.1 million and was invested as follows (expressed in thousands):

Description	Fair Value of Underlying Securities
Resell agreements	$ 78,399
Commercial paper	20,659
Certificates of deposit with other banks	13,002
	$ 112,060

In addition, the SIFC had the following lending obligations as of June 30, 2012 for which securities were received as collateral (expressed in thousands):

	Fair Value	
Description	Securities Lent	Investment Collateral Received
U.S. Treasury notes and bonds	$ 58,579	$ 59,925
Equities	75	77
U.S. sponsored agencies bonds and notes	6,243	6,372
	$ 64,897	$ 66,374

8. INVESTMENTS IN LIMITED PARTNERSHIPS

Pursuant to the Statement of Investment Guidelines for the Government of Puerto Rico, the pension trust funds and the component units invested approximately $45.4 million in limited partnerships during the year ended June 30, 2012. The investments were as follows:

- During fiscal year 2012, there were no contributions to Guayacán Fund of Funds, L.P., a Delaware limited partnership, organized by Grupo Guayacán, Inc. as general partner, which has total commitments of $55.5 million (of which $45 million are from pension trust funds and the remaining balances from private corporate investors). This fund invests in the United States of America and international private equity partnerships that in turn invest in private companies.

- During fiscal year 2012, there were no contributions to Guayacán Fund of Funds, II, L.P., a Delaware limited partnership, organized by Grupo Guayacán, Inc. as general partner, which has total commitments of $62 million (of which $50 million are from the pension trust funds and the remaining balances from private corporate investors). The fund invests in a broad range of U.S. and international private equity investment partnerships that, in turn, will make equity and equity related investments primarily in private businesses.

- During fiscal year 2012, approximately $8.3 million were invested in Guayacán Fund of Funds III, L.P., a Delaware limited partnership, organized by Grupo Guayacán, Inc., as general partner, that has total commitments of $81.8 million (of which $40 million are from the State Insurance Fund Corporation and the remaining balances from private corporate investors.) This fund seek to provide investors with a superior investment return and extensive diversification by investing in seventeen (17) private equity investment partnerships in the United States and Europe.

- During fiscal year 2012, there were no contributions to Guayacán Private Equity Fund, L.P., a Delaware limited partnership, organized by Advent Morro Equity Partners, Inc. as general partner, that has total commitments of $41.9 million (of which $10 million are from the pension trust funds, $20 million are from a component unit and the remaining balance from the private corporate investors in Puerto Rico). This fund invests in Puerto Rico private equities.

- During fiscal year 2012, approximately $4 million were invested in Guayacán Private Equity Fund II, L.P. a Delaware limited partnership, organized by Advent/Morro Partners as general partner, that has total commitments of $69 million (of which $15 million are from pension trust funds, $30 million are from components units, and the remaining balance from the private corporate investors in Puerto Rico). This fund invests in Puerto Rico private equities.

- During fiscal year 2012, approximately $4 million were invested in GF Capital Private Equity Fund, L.P., a limited partnership, organized under the laws of the State of Delaware, in which the pension trust funds have a total commitment of $25 million. The purpose of the partnership is to make private equity investments in a variety of industries, including media and entertainment, branded consumer products, and software for media and telecommunications applications. The partnership initiatives are focused on companies capitalized at between $20 million to $400 million with a representation of buyouts, growth capital, and recapitalizations.

- During fiscal year 2012, there were no contributions to Chase Capital Partners Private Equity Fund of Funds Corporate Investors II, LTD, a limited partnership, organized by Chase as general partner, in which the pension trust funds have a total commitment of $20 million. The fund's investment strategy is to capitalize on a globally diversified portfolio of private equity investment opportunities across various sectors including buyouts, growth equity, venture capital, and other special situations through partnership and direct investments.

- During fiscal year 2012, there were no contributions to Chase Capital Partners Private Equity Fund of Funds II, LTD, a limited partnership, organized by J.P. Morgan Alternative Asset Management, Inc. as investment manager, in which the pension trust funds have a total commitment of $15 million. The fund's investment strategy is to capitalize on a globally diversified portfolio of private equity investments opportunities across various sectors, including buyouts, growth equity, venture capital and other special situations through partnership, investments, and direct investments.

- During fiscal year 2012, there were no contributions to Invesco Venture Partnership Fund III, L.P., a Delaware limited partnership, organized by IPC Partnership Associates III, LLC as general partner, in which the pension trust funds have a total commitment of $5.5 million. The partnership was organized to invest in other collective investments funds investing in alternative assets, including primarily U.S. and international funds that focus on both early- and later-stage venture capital investments.

- During fiscal year 2012, there were no contributions to Invesco Non U.S. Partnership Fund III, L.P., a Delaware limited partnership, organized by IPC Partnership Associates III, LLC as general partner, in which the pension trust funds have a total commitment of $4.5 million. The partnership was organized to invest in other collective investments funds investing in alternative assets, including primarily investments focusing on non U.S. buyouts, expansion capital, turnaround, mezzanine, and distressed investment partnerships.

- During fiscal year 2012, approximately $25 thousand were invested to Invesco U.S. Buyout & Expansion Capital Partnership Fund III, L.P., a Delaware limited partnership, organized by IPC Partnership Associates III, LLC as general partner, in which the pension trust funds have a total commitment of $3.7 million. The partnership was organized to invest in other collective investment funds investing in alternative assets, including primarily investments focusing on small, mid-size, and large domestic buyout transactions.

- During fiscal year 2012, there were no additional contributions to Venture Capital Fund, Inc., a Puerto Rico Corporation, organized pursuant to Act No. 3 of October 6, 1987, as amended, known as the Puerto Rico Capital Investment Funds Act, that is managed by Advent-Morro Equity Partners (Advent-Morro Equity Partners, Inc.) in which the pension trust funds have a total commitment of $800 thousands. Advent-Morro is a Puerto Rico based private equity firm. The fund was created to make private equity investments in operating companies that are based, or are operating, or a combination of both, in Puerto Rico. Since inception, the fund has invested in 25 companies some of which it continues to provide capital for their expansion.

- The pension trust funds have a commitment and cumulative contribution of $1.7 million in Martineau Bay Resorts, S. en C. (S.E), which represents an investment in a hotel resort that filed under Chapter 11 of the United States Bankruptcy Code.

- During fiscal year 2012, a component unit invested approximately $22.2 million in U.S. Government Properties Income & Growth Fund, L.P., a limited partnership organized in August 2011 under the laws of the State of Delaware, in which the component unit has a total commitment of $25 million. This partnership is a real estate investment fund that targets investments in assets leased to U.S. General Services Administration and other federal leases located in the United States to provide current income and potential asset appreciation.

- During fiscal year 2012, a component unit invested approximately $5.2 million in McCoy Investments, L.P., a limited partnership organized in August 2011, under the laws of the State of Delaware, in which the component unit has a total commitment of $15 million. This partnership was organized to invest in other pooled investments portfolio funds investing primarily in private equity, including investments in U.S. and non-U.S. venture capital, leveraged buyouts, distressed, turnaround, expansion capital, mezzanine and special situation funds.

The fair value of the pension trust funds' investments in limited partnerships at June 30, 2012, amounted to approximately $76.6 million and is presented within other investments in the statement of fiduciary net assets — fiduciary funds. The fair values of these investments have been estimated by the corresponding general partner or fund manager of these partnerships and disclosed in its respective separate audited financial statements. The allocations of net gain and net loss to the limited partners are based on certain percentages, as established in the limited partnership agreements. The difference between the fair value of the investments and the total cumulative contributions is mostly due to distributions made.

As of June 30, 2012, the pension trust funds and discretely presented component units had capital commitments and contributions as follows (expressed in thousands):

	Public Sector Commitments	Fiscal Year Contributions	Cumulative Contributions
Guayacán Fund of Funds, L.P.			
Primary government:			
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	$ 25,000	$ -	$ 23,820
Puerto Rico System of Annuities and Pensions for Teachers	20,000	-	19,056
Subtotal	45,000	-	42,876
Guayacán Fund of Funds II, L.P.			
Primary government:			
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	25,000	-	23,681
Puerto Rico System of Annuities and Pensions for Teachers	25,000	-	23,681
Subtotal	50,000	-	47,362
Guayacán Fund of Funds III, L.P.			
Component unit — State Insurance Fund Corporation	40,000	8,312	20,039
Guayacán Private Equity Fund, L.P.			
Primary government:			
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	5,000	-	4,645
Puerto Rico System of Annuities and Pensions for Teachers	5,000	-	4,645
Component unit — Economic Development Bank for Puerto Rico (1)	20,000	-	18,578
Subtotal	30,000	-	27,868
Guayacán Private Equity Fund II, L.P.			
Primary government — Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	15,000	1,786	19,030
Component unit:			
Economic Development Bank for Puerto Rico (1)	20,000	1,429	15,224
State Insurance Fund Corporation	10,000	714	7,612
Subtotal	45,000	3,929	41,866
Other Funds			
Primary government:			
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	47,596	5,750	45,804
Puerto Rico System of Annuities and Pensions for Teachers	28,714	25	26,453
Component unit — State Insurance Fund Corporation	40,000	27,400	27,400
Subtotal	116,310	33,175	99,657
Total	$326,310	$45,416	$279,668

(1) Information related to the Economic Development Bank for Puerto Rico was obtained from unaudited financial statements provided by the respective fund.

9. RECEIVABLES AND PAYABLES

Governmental and Business — Type Activities — Receivables in the governmental funds include approximately $1.3 billion of accrued income, excise and sales and use taxes. Intergovernmental receivables include approximately $312 million from the federal government and $32.2 million from CRIM. In addition, the enterprise funds include $72.9 million of unemployment, disability, and drivers' insurance premium receivable. Payables in the governmental funds include approximately $835.2 million of trade accounts due to suppliers for purchase of merchandise and services rendered and $851.8 million of tax refunds payable.

In accordance with GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issue,* as amended (the "TB"), a receivable of $40.6 million was recorded as other receivable in the government-wide financial statements for estimated shipments from January 1 to June 30, 2012, which will be applied to debt service upon collection. Additionally, the TB indicated that the trust designated as the TSA (the Children's Trust in the case of the Commonwealth) should recognize a liability for the bonds payable and an expense (and liability if unpaid) in the same period in its stand-alone financial statements. The expense (and liability if unpaid) recognizes the contractual obligation to remit the proceeds of the bond sold to the settling government (the "Commonwealth"). Since the Children's Trust is reported as a blended component unit, the TB indicates these remittances should be reported as transfers into the fund receiving the proceeds and transfers out in the fund that accounts for the activities of the TSA. Since the Children's Trust has no contractual obligation, under its enabling legislation or elsewhere, to remit all bond proceeds or assets related to the TSA to the settling government (the "Commonwealth"), the Children's Trust has not recognized an expense and liability for unpaid proceeds from the bonds since it records the expense as amounts are disbursed as grants to its settling government (including its instrumentalities) or third parties.

Component Units — GDB — Loans to the Commonwealth, its agencies, and instrumentalities amounted to approximately $5.7 billion or 36% of GDB's government wide total assets as of June 30, 2012. These loans are expected to be collected from appropriations from, proceeds from bond issuances of, or revenues generated by, the Commonwealth, and/or its agencies and instrumentalities. The Commonwealth's recurring expenditures have exceeded its recurring revenues during the past thirteen years and its credit ratings have been lowered. In addition, many of the Commonwealth's agencies and instrumentalities have had losses from operations during the past years. The collectability of these loans may be affected by budgetary constraints, the fiscal situation, and the credit rating of the Commonwealth of Puerto Rico, its agencies and instrumentalities, and their ability to generate sufficient funds from taxes, charges and/or bond issuances. Continuance of and/or significant negative changes in these factors may affect the ability of the Commonwealth and its agencies and instrumentalities to repay their outstanding loan balances with GDB and accordingly, may have an adverse impact on GDB's financial condition, liquidity, funding sources, and results of operations.

GDB's management believes that no losses will be incurred by GDB with respect to principal and interest on most of its loans to the public sector (including municipalities) and, as a result, no allowance for loan losses is generally established for them. For public sector loans, excluding municipalities, GDB's management bases its position in that in the past, the Director of the Commonwealth's Office of Management and Budget (OMB) has included in the budget of the Commonwealth appropriations to assist the Commonwealth and certain of its agencies and instrumentalities requiring financial support in repaying their loans with GDB. The Legislature of the Commonwealth (the "Legislature") has approved these appropriations, and such practice is anticipated to continue in the future. In addition, management's position is based on the fact that GDB has been able to collect most of the loans to such public sector entities with proceeds of bonds or notes issued by the Commonwealth or its agencies and instrumentalities, including bonds issued by COFINA. These public corporations and the

Commonwealth have never defaulted on their respective bonds. GDB has, in the past, collected the outstanding principal and interest at the contractual rate on loans repaid from Commonwealth's appropriations, or bond or note proceeds. Accordingly, no allowance has been established in the case of public sector loans for any shortfall between the present value of the expected future cash flows and the recorded investments in the loans.

Although management of GDB believes that no losses of principal and interest will be incurred by GDB with respect to most loans outstanding to the public sector at June 30, 2012, there can be no assurance that the Director of the OMB will include amounts for loan repayments in the Commonwealths' budget, and that the Legislature will appropriate sufficient funds in the future to cover all amounts due to GDB by the Commonwealth or public sector entities requiring the Commonwealth's support, or that the proceeds from any future bond issuances by COFINA or certain public entities which have financed their capital improvement programs with GDB, will be sufficient to cover the outstanding amount due to GDB at June 30, 2012. In addition, the participation of certain public entities in the bond market has been delayed waiting for the credit rating of such entities to improve or for more favorable market conditions. Because of the relationship among GDB, the public sector entities, the Director of the OMB, and the Legislature, the timing and amount of any financial assistance and bond proceeds to be used to repay certain public sector loans cannot be reasonably estimated by GDB.

At June 30, 2012, loans to public corporations and agencies of the Commonwealth amounting to $5.7 billion are repayable from the following sources (in thousands):

Repayment Source	Amount
Proceeds from future bond issuances of public corporations	$1,538,175
Operating revenues of public entities other than the Commonwealth	1,043,636
Legislative appropriations — previously from issuance of Commonwealth's general obligation bonds	1,123,959
Legislative appropriations — previously from COFINA	758,397
Legislative appropriations — other	1,157,463
Other — including funds from federal grants	78,174
Total	$5,699,804

Since one of GDB's principal functions is to provide financing to the Commonwealth and its instrumentalities, GDB's loan portfolio includes loans to various departments and agencies of the Commonwealth, to various public corporations, and to municipalities, which represent a significant portion of the GDB's government-wide assets. Loans to the Commonwealth and its departments and agencies typically include working capital lines of credit payable from short-term tax and revenue anticipation notes issued by the Commonwealth, interim financing of capital improvements payable from Commonwealth's general obligation bonds or revenue bonds issued by the corresponding agency and, in recent years, loans to finance the Commonwealth's budget deficit payable from COFINA, uncollected taxes and annual appropriations made by the Legislature of Puerto Rico. Loans to the public sector, excluding municipalities, amounted to approximately $5.7 billion or 36% of GDB's government-wide total assets at June 30, 2012.

At June 30, 2012, approximately $3 billion of the public sector loans are payable from legislative appropriations from, or future tax revenues of, the Commonwealth. Accordingly, the payment of these loans may be affected by budgetary constraints, the fiscal situation and the credit rating of the Commonwealth. Significant negative changes in these factors may have an adverse impact on GDB's financial condition. Since 2000, the Commonwealth's recurring expenditures have exceeded its

recurring revenues. These shortfalls were partially covered with loans from GDB and other nonrecurring revenues. From fiscal year 2003 to 2008, GDB granted loans to the Commonwealth aggregating to $1,964 million to cover part of the Commonwealth's deficit. As of June 30, 2012, the outstanding principal amount of these loans was $223 million.

During fiscal year 2012, GDB received $65.1 million and $91.5 million of appropriations to repay principal of and interest on public sector loans whose repayment source was originally from COFINA and from future issuances of Commonwealth's general obligations bonds, respectively. The Commonwealth's general fund budget for fiscal year 2013 includes $65.1 million and $97.9 million of appropriations to repay principal of and interest on public sector loans whose repayment sources was originally from COFINA and from future issuances of Commonwealth's general obligations bonds, respectively. These appropriations are based on payment schedules proposed by GDB, which are based on a period of amortization of 30 years each, at contractual interest rates. GDB will annually submit to the OMB, to be included in the Commonwealth's budget for legislative approval in each subsequent fiscal year, an amount established in the payment schedules with the terms stated above. GDB expects that future appropriations will be approved by the Legislature of the Commonwealth to comply with such schedules. However, there can be no assurance that the Director of OMB will include an amount for loan repayments in the Commonwealth's budget, and that the Legislature will appropriate sufficient funds in the future to cover all amounts due to GDB on these loans.

In addition, at June 30, 2012, approximately $2.7 billion of public sector loans are payable from proceeds from future bond issuances and operating income of public corporations of the Commonwealth. GDB lends funds to such public corporations for capital improvements and operating needs. The loans for capital improvements generally are construction loans and are repaid from the proceeds of future bond issuances of the respective public corporations. Such loans may, however, also be repaid from the revenues of such public corporations, from loans provided by sources other than GDB, from federal grants, and from the sale of assets of such public corporations. The amount of outstanding loans from GDB to the public corporations fluctuates annually, depending upon the capital program needs of the public corporations, the timing and level of their capital expenditures, and their ability to gain access to the long-term capital markets. The participation of certain of these public entities in the bond market has been delayed waiting for the credit rating of such entities to improve or for more favorable market conditions.

As of June 30, 2012, GDB has extended various credit facilities to Puerto Rico Highways and Transportation Authority (PRHTA) for, among other, capital improvement programs, working capital, debt service and collateral posting requirements. The outstanding balance of such facilities amounts to $1.9 billion, including accrued interest of $30.5 million, which represent 12% and 76%, of GDB's total government-wide assets and net assets, respectively, at June 30, 2012. GDB, in its ordinary course of business, provides interim lines of credit to public corporations like PRHTA. These lines of credit have historically been repaid from bond issuances of each public corporation, once they regain or have access to the capital markets. No public corporation has ever defaulted on its obligations with GDB.

PRHTA has reported net operating losses during each of the three fiscal years in the period ended June 30, 2011, and, as a result, GDB has been partially financing its operations through credit facilities. In fiscal year 2010, PRHTA entered into a fiscal oversight agreement with GDB, whereby GDB, among other things, imposes conditions on the extensions of credit to PRHTA and continually monitors its finances. PRHTA expects to repay the credit facilities due to GDB with proceeds from the issuance of bonds within the next two fiscal years. On December 13, 2012, Moody's Investors Service ("Moody's") downgraded PRHTA's transportation revenue bonds from Baa1 to Baa3, PRHTA's highway revenue bonds from A3 to Baa2, and PRHTA's subordinate transportation revenue bonds from Baa2 to Ba1. Managements of PRHTA and GDB are working with various alternatives for PRHTA to gain access to

the bond capital market, including, among other, a new trust indenture, revenue increasing measures, and expense reduction measures. If such alternatives are not materialized, PRHTA could default on its credit facilities with GDB, which may have a material adverse effect on the financial condition, operating results and liquidity of GDB. GDB' management, however, believes that in case such alternatives are not materialized, the Commonwealth would provide financial support to PRHTA in order to repay its outstanding borrowings with GDB. On June 25, 2013 the Commonwealth enacted Act No. 31, which amended several articles of the internal revenue code designed to raise PRHTA's revenue base through the increase of applicable excise tax rates to be applied on imports of crude oil, unfinished oil and derivative products. This measure is expected to provide funds to PRHTA to repay the GDB credit facilities. For more details see Note 25 (d).

Pension Trust Funds — Loans receivable from plan members are guaranteed by the contributions of plan members and by other sources, including mortgage deeds and any unrestricted amount remaining in the escrow funds. In addition, collections on loans receivable are received through payroll withholdings. For the year ended June 30, 2012, the maximum amount of loans to plan members for mortgage loans was $100,000, and $5,000 for personal and cultural trip loans.

The allowance for loan losses is considered a general allowance for all categories of loans and interest receivable, except mortgage loans, and also a specific allowance for the special collection project loans balances.

As of June 30, 2012, the composition of loans and interest receivable from plan members is summarized as follows (in thousands):

Loans receivable:	
Personal	$ 961,654
Mortgage	288,368
Cultural trips	73,985
Total loans to plan members	1,324,007
Accrued interest receivable	40,183
Total loans and interest receivable from plan members	1,364,190
Less allowance for adjustments and losses in realization	(4,850)
Total loans and interest receivable from plan members — net	$1,359,340

As of June 30, 2012, accounts receivable from employers, included within accounts receivables in the accompanying statement of fiduciary net assets, consisted of the following (in thousands):

Early retirement programs	$ 7,932
Special laws	45,746
Employer and employee contributions	47,795
Interest on late payments	11,413
Total accounts receivable from employers	112,886
Less allowance for doubtful accounts receivable	(911)
Accounts receivable from employers — net	$ 111,975

According to Act No. 447, each employer must pay, on a monthly basis, the amounts corresponding to contributions and loan repayments, on or before the fifteenth day of the following month. After that date, interests are charged as established by the Pension Trust Fund.

The accounts receivable from employers related to special laws amounts to $45.8 million as of June 30, 2012. The Pension Trust Fund has entered into installment payment agreements with approximately 84% of these employers, while the remaining 16% of employers have not entered into installment payments with the Pension Trust Fund.

As of June 30, 2012, accounts receivable from employers include amounts due from Puerto Rico Medical Service Administration ("ASEM" by its Spanish acronym) of approximately $16.7 million, as follow (in thousands):

Employer and employee contributions	$ 11,150
Interest	5,507
Total accounts receivable from ASEM	$ 16,657

During fiscal year 2011, the Commonwealth's Legislature approved Act No. 2961 assigning funds to ASEM to settle its account receivable with ERS as of June 30, 2010. ASEM and ERS have established a 3 year payment plan for the remaining outstanding balance of employer and employee contributions owed. On January 5, 2011, ERS received an initial payment of $54 million. In addition, in August 2011, ERS received an interest payment of $14 million.

10. PLEDGES OF RECEIVABLES AND FUTURE REVENUES

The Commonwealth has pledged the first two point seventy-five (2.75%) percent of the sales and use tax for the repayment of certain outstanding obligations of the Commonwealth. During 2012, COFINA, a blended component unit of the Commonwealth, responsible for the financing, payments and retirement of certain debt obligations of the Commonwealth, has issued bonds for approximately $1,878 million payable through 2058. The Commonwealth has committed to appropriate each year, from the sales and use tax, amounts sufficient to cover the principal and interest requirements on the debt issued by COFINA. COFINA has pledged as the sole security for the bonds, the annual appropriations from the Commonwealth. Total principal and interest remaining on the secured debt is $35.1 billion and $18.1 billion, respectively. The pledged sale and use tax base amount for the fiscal year ended June 30, 2012 amounted to $595 million. For fiscal year 2012, interest paid by COFINA amounted approximately to $588 million and issuance costs of approximately $15 million. Sales and use tax revenue recognized by the Commonwealth was $601.4 million.

Also, the Commonwealth has pledged part of the gross receipts of the gasoline excise taxes and one half of the diesel oil excise taxes (up to $11 million monthly but no more than $120 million annually) derived from excise taxes over crude oil and its derivatives and $15 per vehicle per year from motor vehicle license fees for the repayment of the PRHTA Revenue Bonds. The Commonwealth has committed to appropriate each year, from the excise taxes, amounts sufficient to cover the principal and interest requirements on the debt issued by PRHTA. PRHTA has pledged as the sole security for the bonds, the annual appropriations from the Commonwealth. Total principal and interest remaining on the secured debt is $4.7 billion and $4.6 billion, respectively. The pledged excise tax for the fiscal year ended June 30, 2012 amounted to $120 million. For fiscal year 2012, principal and interest paid by PRHTA amounted to $1,003 million and $453 million, respectively, and the excise tax revenue recognized by the Commonwealth was $260 million.

Rum manufactured in Puerto Rico is subject to federal excise taxes; however, these are returned by the U.S. Internal Revenue Service (IRS) to the Commonwealth. Act No. 44, as amended, requires that in each fiscal year through fiscal year 2057, the first $117 million, of certain federal excise taxes received by the Commonwealth be transferred to the Puerto Rico Infrastructure Financing Authority ("PRIFA"). Such taxes consist of the federal excise taxes levied on rum and other articles produced in Puerto Rico and sold in the United States, which taxes are collected by the U.S. Treasury and returned to the Commonwealth. The Commonwealth has pledged these taxes for the repayment of PRIFA's Special Tax Revenue Bonds (the "Bonds"). The Commonwealth has committed to appropriate each year, from the excise taxes, amounts sufficient to cover the principal and interest requirements on the debt issued by PRIFA. PRIFA has pledged as the sole security for the bonds, the annual appropriations from the Commonwealth. The federal excise taxes securing the Bonds are subject to a number of factors, including the continued imposition and remittance of such taxes to the Commonwealth and conditions affecting the Puerto Rico rum industry. The level of federal excise taxes to be received by the Commonwealth is currently expected to decrease, although the exact amount cannot be determined. If the federal excise taxes received by the Commonwealth in any fiscal year are insufficient, Act No. 44 requires that PRIFA request and the Director of the Office of Management and Budget of the Commonwealth include in the budget of the Commonwealth for the corresponding fiscal year, an appropriation necessary to cover such deficiency. The Commonwealth's Legislature, however, is not obligated to make the necessary appropriation to cover such deficiency. Total principal and interest remaining on the secured debt is $2.5 billion and $1.4 billion, respectively. For the year ended June 30, 2012, of the total of $117 million received by PRIFA from the Commonwealth, a total of $113 million was pledged for the debt service of the Special Tax Revenue Bonds. For fiscal year 2012, principal and interest paid by PRIFA amounted to $112.2 million.

11. INTERFUND AND INTRAENTITY TRANSACTIONS

Interfund receivables and payables at June 30, 2012 are summarized as follows (expressed in thousands):

Receivable Fund	Payable Fund	
COFINA Debt Service	Pledged Sales and Use Tax	$ 102,879
Lotteries	General	67,559
Other governmental	General	65,254
General	Lotteries	27,180
General	Unemployment	20,630
Other proprietary	General	18,131
General	Other governmental	1,684
General	Other proprietary	803
		$ 304,120

Transfers from (to) other funds for the year ended June 30, 2012 are summarized as follows (expressed in thousands):

Transferee Fund	Transferor Fund	
COFINA Special Revenue	COFINA Debt Service	$ 963,236
General	COFINA Special Revenue	952,615
Debt service	General	745,201
General	Debt service	704,889
COFINA Debt Service	Pledged Sales and Use Tax	601,393
Other governmental	General	409,840
Other governmental	Other governmental	259,104
General	Lotteries	165,142
General	Unemployment	57,584
Debt service	Other governmental	25,198
Other proprietary	General	4,907
General	Other proprietary	1,975
		$ 4,891,084

The principal purposes of the interfund transfers are to (expressed in thousands):

a. Transfer of ($963,236) from the COFINA Debt Service Fund to the COFINA Special Revenue Fund to be transferred to the General Fund for the purpose stated below.

b. Transfer of ($952,615) from the COFINA Special Revenue Fund to the General Fund to fund the Fiscal Stabilization Fund and the Local Stimulus Economic Plan and for the payment of extra constitutional debt.

c. Transfer of ($745,201) from the General Fund to the Debt Service Fund to make funds available for debt service payments.

d. Transfer of ($704,889) from the Debt Service Fund to the General Fund for the payment of principal and interests on notes payable.

e. Distribution of the sales and use tax for the use of COFINA Debt Service fund as required by enabling legislation for the payment of its bonds ($601,393).

f. Recognize as transfers the rental payments made by the Commonwealth's agencies on properties leased by PBA, a blended component unit of the Commonwealth ($331,491); ($72,491) related to the revenues received from the Tobacco Settlement for the agreement managed by The Children's Trust, a blended component unit of the Commonwealth; and ($5,858) to the Puerto Rico Maritime Shipping Authority for the payment of appropriation debts.

g. Transfers from the PBA debt service fund to the PBA special revenue fund ($118,050) and PBA capital project fund ($141,054).

h. Transfer of ($165,142) from the Lotteries to the General Fund to distribute the increase in net assets of the Lotteries for the use of the General Fund, as required by the Lotteries enabling legislation.

i. Transfer from the Unemployment Insurance Fund related to the distribution of surplus cash corresponding to the General Fund for the payment of administrative expenses ($57,584).

j. Transfer of ($25,198) from the Commonwealth's Capital Projects Fund to the Debt Service Fund for the payment of interest of its bonds.

k. Transfer to provide local matching funds from the General Fund to the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund and the Puerto Rico Water Pollution Control Revolving Fund, nonmajor enterprise funds of the Commonwealth ($4,907).

l. Transfer from the Drivers' and Disability Insurance Funds related to the distribution of surplus cash to the General Fund ($1,975).

Interfund receivables and payables represent the pending settlements of the aforementioned transfers or transactions from current and prior years.

Due from (to) primary government are as follows (expressed in thousands):

Receivable Entity/Fund	Amount	Payable Entity/Fund	Amount
Business-type activities	$450,044	Puerto Rico Aqueduct and Sewer Authority	$450,044
Governmental activities	115,232	Cardiovascular Center Corporation of Puerto Rico and the Caribbean	28,769
	$565,276	Puerto Rico Ports Authority	20,006
		Puerto Rico Metropolitan Bus Authority	15,695
Puerto Rico Infrastructure Financing Authority	$188,256	Puerto Rico Tourism Company	12,546
Puerto Rico Health Insurance Administration	115,180	Puerto Rico Industrial Development Company	7,634
Puerto Rico Aqueduct and Sewer Authority	67,586	Puerto Rico Health Insurance Administration	7,239
Government Development Bank for Puerto Rico	62,045	Puerto Rico Highways and Transportation Authority	6,857
University of Puerto Rico	56,842	Puerto Rico Infrastructure Financing Authority	6,682
Puerto Rico Electric Power Authority	50,242	Governing Board of the 911 Service	4,508
Company for the Integral Development of the "Península de Cantera"	23,192	Puerto Rico Medical Services Administration	3,366
		National Parks Company of Puerto Rico	1,930
Agricultural Enterprises Development Administration	16,356		
Land Authority of Puerto Rico	12,303		$565,276
Puerto Rico Ports Authority	11,800		
Puerto Rico Medical Services Administration	9,273		
Puerto Rico Council on Education	5,221		
Puerto Rico Tourism Company	3,853		
Solid Waste Authority	3,675		
University of Puerto Rico Comprehensive Cancer Center	3,649		
Puerto Rico Metropolitan Bus Authority	1,909		
Puerto Rico Public Private Partnerships Authority	1,529		
Cardiovascular Center Corporation of Puerto Rico and the Caribbean	1,391	Governmental activities: Due to component units	603,309
		Notes payable	30,993
	$634,302		$634,302

The amount owed by PRASA of $450 million represents construction loans granted by the Puerto Rico Water Pollution Control Revolving Fund and the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund, nonmajor enterprise funds, to finance the construction of capital assets for PRASA.

The amounts presented as due from primary government by the University of Puerto Rico and PREPA exclude approximately $24.7 million and $6.3 million, respectively, that were recorded and presented by the Commonwealth as notes payable in the accompanying statement of net assets (deficit) of the governmental activities.

Due from (to) component units are as follows (expressed in thousands):

Receivable Entity/Fund	Amount	Payable Entity/Fund	Amount
Puerto Rico Electric Power Authority	$ 122,846	Puerto Rico and Municipal Islands Maritime Transport Authority	$ 49,885
Puerto Rico Ports Authority	32,655	Puerto Rico Aqueduct and Sewer Authority	32,253
University of Puerto Rico	27,494	University of Puerto Rico	30,773
Land Authority of Puerto Rico	20,051	Puerto Rico Tourism Company	23,943
Puerto Rico Highways and Transportation Authority	14,142	Puerto Rico Medical Services Administration	19,764
Puerto Rico Aqueduct and Sewer Authority	14,109	Puerto Rico Highways and Transportation Authority	17,863
Puerto Rico Convention Center District Authority	11,718	Cardiovascular Center Corporation of Puerto Rico and the Caribbean	15,762
Puerto Rico Medical Services Administration	7,320	Agricultural Enterprises Development Administration	15,059
State Insurance Fund Corporation	6,218	Puerto Rico Ports Authority	12,472
Puerto Rico Land Administration	1,306	National Parks Company of Puerto Rico	8,463
		Solid Waste Authority	5,285
Subtotal	257,859	Puerto Rico Metropolitan Bus Authority	5,134
		Farm Insurance Corporation of Puerto Rico	4,992
		Puerto Rico Infrastructure Financing Authority	4,595
		Puerto Rico Convention Center District Authority	4,057
		Land Authority of Puerto Rico	3,745
		Puerto Rico Trade and Export Company	1,429
		Puerto Rico Industrial Development Company	1,306
		Automobile Accidents Compensation Administration	1,079
		Subtotal	257,859
		Puerto Rico Highways and Transportation Authority	1,881,963
		Special Communities Perpetual Trust	363,639
		Puerto Rico Medical Services Administration	264,390
		Port of the Americas Authority	219,349
		Puerto Rico Health Insurance Administration	171,080
		Puerto Rico Ports Authority	165,543
		Puerto Rico Convention Center District Authority	145,889
		Puerto Rico Aqueduct and Sewer Authority	109,788
		Agricultural Enterprises Development Administration	96,212
		University of Puerto Rico	90,580
		Puerto Rico Industrial Development Company	87,842
		Solid Waste Authority	74,416
		Puerto Rico Electric Power Authority	49,781
		Land Authority of Puerto Rico	38,884
		Puerto Rico Infrastructure Financing Authority	36,885
		Company for the Integral Development of the "Península de Cantera"	23,103
		University of Puerto Rico Comprehensive Cancer Center	19,886
		National Parks Company of Puerto Rico	12,174
		Economic Development Bank for Puerto Rico	9,893
		Puerto Rico Public Private Partnerships Authority	6,050
		Institute of Puerto Rican Culture	2,515
		Puerto Rico Conservatory of Music Corporation	1,411
Government Development Bank for Puerto Rico	3,871,273		3,871,273
	$4,129,132		$4,129,132

The rest of the loans receivable reported by GDB consists of the following (expressed in thousands):

Primary government — governmental activities	$1,584,925
Other governmental entities and municipalities	2,369,551
Private sector	533,257
Total loans receivable reported by GDB	$4,487,733

The loans receivables reported by GDB include $49.8 million presented within Other Restricted Assets in the accompanying Combining Statement of Net Assets (Deficit) — Major Component Units.

The loans to the primary government are presented by the Commonwealth within notes payable in the statement of net assets (deficit).

Expenses of the primary government include approximately $2.7 billion in capital and operational contributions made by the primary government to the component units as follows (expressed in thousands):

Puerto Rico Health Insurance Administration	$ 945,033
University of Puerto Rico	763,469
Puerto Rico Aqueduct and Sewer Authority	393,650
Nonmajor components units	636,061
Total contributions made by primary government to component units	$2,738,213

12. RESTRICTED ASSETS

Restricted assets of the primary government included in the basic financial statements at June 30, 2012 consist of cash, receivables, investments, and other assets to be used for the following purposes (expressed in thousands):

Governmental activities:	
Debt service and sinking fund	$2,795,818
Public Housing Administration — funds received from the U.S Housing and Urban Development	1,836
Affordable housing program	1,258
Construction of governmental facilities	407,975
Payment of operational expenses and certain financing granted to the Commonwealth, among other purposes	57,068
Other	242,615
Assets in liquidation	24,607
Total restricted assets of governmental activities	$3,531,177
Business-type activities:	
Payment of insurance benefits	$ 490,667
Lending activities	566,942
Total restricted assets for business-type activities	$1,057,609

Liabilities of the primary government payable from restricted assets consist of the following (expressed in thousands):

Governmental activities:	
Debt service	$ 742,583
Other	107,520
Accounts payable to contractors	407,975
Liabilities payable from restricted assets — governmental activities	$1,258,078
Business-type activities:	
Insurance benefits payable	$ 104,789
Accounts payable and accrued liabilities	2,067
Liabilities payable from restricted assets — business-type activities	$ 106,856

Restricted net assets of the primary government consist of the following (expressed in thousands):

Governmental activities restricted net assets:	
Net assets in liquidation	$ 24,607
Payment of operational expenses and certain financing granted to the Commonwealth, among other purposes	192,163
Restricted for debt service	2,053,235
Affordable housing and related loan insurance programs	3,094
Total restricted net assets — governmental activities	$2,273,099
Business-type activities restricted net assets:	
Lending activities	$ 564,875
Payment of insurance benefits	385,878
Total restricted net assets — business-type activities	$ 950,753

Restricted assets of the component units included in the basic financial statements at June 30, 2012 are to be used for the following purposes (expressed in thousands):

Debt services and sinking fund requirements	$4,372,782
Construction and betterments funds	1,395,482
Collateral for underlying securities	948,113
Educational funds	104,999
Financial assistance	105,090
Industrial incentives	6,264
Malpractice insurance fund	5,268
Other uses	579,087
Total for components units	$7,517,085

13. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2012 is as follows (expressed in thousands):

Primary Government

	Beginning Balance (As restated)	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 867,215	$ 12,465	$ 799	$ 878,881
Construction in progress	1,117,079	628,579	258,587	1,487,071
Total capital assets, not being depreciated	1,984,294	641,044	259,386	2,365,952
Buildings and building improvements	8,167,328	272,431	86,243	8,353,516
Equipment, furniture, fixtures, vehicles, and software	545,393	48,058	6,478	586,973
Infrastructure	605,846	-	-	605,846
Total capital assets, being depreciated and amortized	9,318,567	320,489	92,721	9,546,335
Less accumulated depreciation and amortization for:				
Buildings and building improvements	3,048,803	239,813	59,447	3,229,169
Equipment, furniture, fixtures, vehicles, and software	355,831	41,708	4,101	393,438
Infrastructure	131,341	12,539	-	143,880
Total accumulated depreciation and amortization	3,535,975	294,060	63,548	3,766,487
Total capital assets, being depreciated and amortized, net	5,782,592	26,429	29,173	$ 5,779,848
Governmental activities capital assets, net	$ 7,766,886	$ 667,473	$ 288,559	$ 8,145,800
Business-type activities:				
Total capital assets, being depreciated — equipment	$ 6,870	$ 137	$ -	$ 7,007
Less accumulated depreciation of equipment	5,210	71	-	5,281
Total business-type activities capital assets, being depreciated, net	$ 1,660	$ 66	$ -	$ 1,726

Depreciation and amortization expense was charged to functions/programs of the primary government for the year ended June 30, 2012 as follows (expressed in thousands):

Governmental activities:	
General government	$ 92,329
Public safety	27,151
Health	7,447
Public housing and welfare	115,684
Education	34,425
Economic development	17,024
Total depreciation and amortization expense — governmental activities	$ 294,060

The Commonwealth follows the provision of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, and an amendment to GASB Statement No. 34. This statement establishes guidance for accounting and reporting for the impairment of capital assets and for insurance recoveries. Every year the Commonwealth performs an impairment analysis of its capital assets, in order to comply with the requirements of GASB Statement No. 42. The financial reporting impact resulting from this analysis had no effect on the statement of activities for the year ended June 30, 2012.

General infrastructure assets include $427 million representing actual and estimated costs of assets transferred to the Department of Natural and Environmental Resources (DNER) of the Commonwealth in 1997 upon completion of the Cerrillos Dam and Reservoir and the Portugues-River and Bucana-River Projects (“the Cerrillos Dam and Reservoir Project”) by the United States (U.S.) Army Corps of Engineers. These infrastructure assets are reported within governmental activities and include dams, intake facilities, and similar items built for flood control, water supply, and recreational purposes. The depreciation is computed using the straight-line method over an estimated useful life of 50 years from the transfer date of the property. Late in April 2011, the Commonwealth received a final debt agreement from the U.S. Army Corps of Engineers establishing a repayment schedule for its allocated share of the construction costs associated with the Cerrillos Dam and Reservoir Project, excluding those costs for items built for recreational purposes, amounting to $214 million. Unpaid allocated share of these construction costs associated with the Cerrillos Dam and Reservoir Project amounted to $212 million, plus accrued interest of $163 million, at June 30, 2012 (see Note 15). The Commonwealth also recorded a payable due to the U.S. Army Corps of Engineers, amounting to $14 million, for its estimated allocated share of the construction costs associated with the recreational part of the Cerrillos Dam and Reservoir Project, including accrued interest of $4 million. The final debt agreement between DNER and the U.S. Army Corps of Engineers for the recreational part of the Cerrillos Dam and Reservoir Project has not been finalized, and therefore, terms and conditions could differ from those estimated (see Note 15). The depreciation is computed using the straight-line method over an estimated useful life of 50 years from the transfer date of the property.

On August 17, 2001, the Legislature of the Commonwealth approved Act No. 120, which requires the conditional transfer of the ownership of certain real properties under the name of the Department of Recreation and Sports (DRS) of the Commonwealth to the municipalities of the Commonwealth. Land and facilities have been transferred occasionally since the date of this Act at no cost to the municipalities. During the fiscal year ended June 30, 2012, no transfers were made to the municipalities under the provisions of this Act.

Discretely Presented Component Units

	Beginning Balance (as Restated)	Increases	Decreases	Ending Balance
Capital assets, not being depreciated/amortized:				
Land	$ 3,252,708	$ 82,643	$ 26,341	$ 3,309,010
Art works	9,981	8,073	6,468	11,586
Construction in progress	4,073,664	1,460,403	1,828,123	3,705,944
Total capital assets, not being depreciated/amortized	7,336,353	1,551,119	1,860,932	7,026,540
Capital assets, being depreciated/amortized:				
Buildings and building improvements	5,156,467	311,377	49,608	5,418,236
Equipment, furniture, fixtures, vehicles, and software	10,435,927	697,157	63,957	11,069,127
Infrastructure	27,356,764	795,847	55,307	28,097,304
Intangibles, other than software	2,293	-	-	2,293
Total capital assets, being depreciated/amortized	42,951,451	1,804,381	168,872	44,586,960
Less accumulated depreciation/amortization for:				
Buildings and building improvements	2,278,591	143,863	14,658	2,407,796
Equipment, furniture, fixtures, vehicles and software	2,144,854	433,471	49,873	2,528,452
Infrastructure	15,582,023	671,691	17,932	16,235,782
Intangibles, other than software	866	57	-	923
Total accumulated depreciation/amortization	20,006,334	1,249,082	82,463	21,172,953
Total capital assets, being depreciated/amortized, net	22,945,117	555,299	86,409	23,414,007
Capital assets, net	$ 30,281,470	$ 2,106,418	$ 1,947,341	$ 30,440,547

On February 24, 2012, PRIFA entered into an Assistance Agreement with the Puerto Rico Department of Justice (PRDOJ) and GDB to acquire, refurbish and operate a property to be used for the relocation of the PRDOJ’s main offices. In connection with the Assistance Agreement, GDB provided a $35 million credit facility to PRIFA to undertake the acquisition and administration of this property and manage the initial phase of the rehabilitation and refurbishment of the property. On March 8, 2012, PRIFA acquired the property for approximately $27 million. The credit facility is payable solely from, and secured by the assignment of the PRDOJ lease agreement and any other existing and future lease agreement and by a mortgage lien on the property acquired.

PRIFA has also issued certain bonds and notes to finance the construction of certain capital projects for the benefit of PRASA, municipalities and other agencies and instrumentalities of the Commonwealth. The capital projects include the construction of infrastructure and buildings to be used in the operations of, and managed by, PRASA, the municipalities and other agencies in their respective operations. The capital projects, including the land acquired, are included as part of PRIFA’s capital assets until construction is completed and the conditions for transfers to the ultimate beneficiaries are met. During the year ended June 30, 2012, PRIFA incurred approximately $30 million in construction costs for the benefit of other instrumentalities of the Commonwealth.

In October 2010, PRIFA entered into a memorandum of understanding with Puerto Rico Public-Private Partnerships Authority, Puerto Rico Public Buildings Authority, Puerto Rico Department of Education, Puerto Rico Department of Transportation and Public Works ("DTOP", for its Spanish acronym), and the GDB for the administration of the Schools for the 21st Century Program (the "21st Century Program").

Data for September 2012 reveals additional significant progress by the Schools for the 21st Century Program with fifty-two (52) Public Private Partnership contracts awarded for ninety-nine (99) schools. By this date, seventy (70) schools were under construction and twenty-nine (29) schools were completed and turned over to the DE. The fifty-two (52) Public Private Partnership contracts awarded by September 2012 represented a total investment amount of approximately $650 million.

14. TAX REVENUE AND BOND ANTICIPATION NOTES PAYABLE

Act No. 1 of the Legislature of the Commonwealth, approved on June 26, 1987 ("Act No. 1"), authorizes the Secretary of the Treasury Department to issue, from time to time, notes in anticipation of taxes and revenues ("Tax Revenue Anticipation Notes" or "TRANS") so that the Secretary, in the cash flow management program designed to maximize the use of moneys in the general fund, will have an alternate means of providing a liquidity mechanism to cover any temporary cash shortages projected for a fiscal year. Act No. 139, approved on November 9, 2005, amended Section 2(g) of Act No. 1 to provide that the total principal amount of notes issued under the provisions of Act No. 1 and outstanding at any time for any fiscal year may not exceed the lesser of eighteen percent (18%) of the net revenues of the general fund for the fiscal year preceding the fiscal year in which the notes are issued or one billion five hundred million dollars ($1,500,000,000).

TRANS issued during fiscal year 2012 amounted to $1,100 million at interest rates ranging from 1.20% to 2.25%. TRANS proceeds were used to cover temporary cash deficiencies resulting from the timing differences between tax collections and the payments of current expenditures. TRANS were refinanced during the year in order to take advantage of interest rates. The maximum amount of TRANS outstanding at any time during the year was approximately $900 million. As of June 30, 2012, the balance of TRANS outstanding was paid in full.

Also, during fiscal year 2012, the Commonwealth was authorized to issue bond anticipation notes in an aggregate principal amount, not to exceed $290 million, in order to complete certain public improvement projects, acquire certain properties and equipment on behalf of some component units, and cover the cost and interest of the bonds expected to be issued, as described below. These notes have been issued in anticipation of the issuance of public improvement bonds expected to be issued during fiscal year 2014. Although legal steps have been taken to refinance the anticipation notes with the bonds, since such bonds have not been issued as of the date of these basic financial statements, the related notes have been recognized as a short-term fund liability in the capital project fund. As of June 30, 2012, $75.8 million of bond anticipation notes were outstanding.

15. SHORT AND LONG-TERM OBLIGATIONS

(a) Primary Government

Summary of Short and Long-term Obligations — Short and long-term obligations at June 30, 2012 and changes for the year then ended are as follows (expressed in thousands):

Short-Term Obligations	Balance At June 30, 2011 (As restated)	Debt Issued	Debt Paid	Debt Refunded	Original Issue Premium, net	Other Net Increases (Decreases)	Balance At June 30, 2012	Due Within One Year
Notes payable to GDB	$ 32,179	$ 153,831	$ (155,329)	$ -	$ -	$ (13,797)	$ 16,884	$ 16,884
Bond anticipation notes payable	-	79,144	(3,309)	-	-	-	75,835	75,835
	$ 32,179	$ 232,975	$ (158,638)	$ -	$ -	$ (13,797)	$ 92,719	$ 92,719
Long-Term Obligations								
Governmental activities:								
General obligation and revenue bonds	$ 29,126,136	$ 6,640,840	$ (382,282)	$(2,303,973)	$12,684	$ 98,589	$33,191,994	$ 468,485
Commonwealth appropriation bonds	743,184	564,323	(310,179)	(483,666)	5,729	13,520	532,911	-
Notes payable to component units:								
GDB	1,648,777	966,537	(1,044,186)	-	-	13,797	1,584,925	96,462
Other	68,918	-	(37,925)	-	-	-	30,993	19,273
Capital leases	229,574	680	(5,819)	-	-	-	224,435	9,500
Total bonds, notes, and capital leases payable	31,816,589	8,172,380	(1,780,391)	(2,787,639)	18,413	125,906	35,565,258	593,720
Compensated absences	1,431,424	-	-	-	-	(55,454)	1,375,970	679,649
Net pension obligation	9,325,352	-	-	-	-	1,833,449	11,158,801	-
Net postemployment benefit obligation	174,918	-	-	-	-	40,326	215,244	-
Voluntary termination benefits payable	332,905	-	-	-	-	320,620	653,525	63,918
Other long-term liabilities	2,325,463	-	-	-	-	96,116	2,421,579	572,915
Total governmental activities	45,406,651	8,172,380	(1,780,391)	(2,787,639)	18,413	2,360,963	51,390,377	1,910,202
Business-type activities:								
Compensated absences	4,812	-	-	-	-	156	4,968	2,711
Obligation for unpaid lottery prizes	218,486	-	-	-	-	(26,900)	191,586	49,883
Voluntary termination benefits payable	2,641	-		-	-	2,601	5,242	587
Claims liability for insurance benefits	86,338	-	-	-	-	(13,344)	72,994	72,994
Total business-type activities	312,277	-	-	-	-	(37,487)	274,790	126,175
Total primary government	$ 45,718,928	$ 8,172,380	$ (1,780,391)	$(2,787,639)	$18,413	$2,323,476	$51,665,167	$2,036,377

The principal balance of general obligation and revenue bonds paid reported as expenditures in the statement of revenues, expenditures, and changes in fund balances (deficit) — governmental funds does not agree with amounts reported as debt paid in the table above because it includes principal paid on July 1, 2011 on general obligation and revenue bonds amounting to approximately $334 million, which was accrued at June 30, 2011 as a fund liability. Also, during fiscal year 2012 the amount of approximately $425 million of debt principal paid on July 1, 2012 was accrued as a fund liability at June 30, 2012, but not included as payments in the table above. The net effect of $91 million is the difference between the principal paid on bonds, notes and capital leases payable included in the previous table and the principal shown as expenditures in the statement of revenues, expenditures, and changes in fund balances (deficit) — governmental funds.

On November 23, 2011, COFINA issued its Series 2011A-2 capital appreciation bonds amounting to approximately $337 million in satisfaction of the redemption price on certain outstanding subordinated capital appreciation bonds. Since there was no cash involved in this transaction, the issuance and the repayment of such bonds were excluded from the table above.

Other net increases (decreases) include an increase of $13.8 million in notes payable to GDB, which were classified as short term at June 30, 2011, but which terms were formally extended to a longer term during fiscal year 2012 and, consequently, reclassified as long term and presented as a new long term debt issued in the statement of revenues, expenditures, and changes in fund balances (deficit) — governmental funds. The remaining balance of the other net increases (decreases) in bonds, notes and capital leases payable consists of capitalization of interest on capital appreciation bonds; deferred gains/losses on refunding's, net of amortization; amortization of premiums and accretion of discounts on bonds and notes payable. These adjustments did not require any source or use of cash.

Compensated absences, net pension obligation, net postemployment benefit obligation, termination benefits, other long-term liabilities, obligation for unpaid lottery prizes, and claims liability for insurance benefits reflect other net increases (decreases) resulting from adjustments and changes to agree these obligations to their new estimated balances at June 30, 2012.

(b) Debt Limitation

The Constitution of the Commonwealth authorizes the contracting of debts as determined by the Legislature. Nevertheless, Section 2, Article VI of the Constitution of the Commonwealth provides that direct obligations of the Commonwealth evidenced by bonds or notes and backed by the full faith, credit, and taxing power of the Commonwealth shall not be issued if the amounts of the principal of and interest on such bonds and notes and on all such bonds and notes issued thereafter, which are payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year of such proposed issuance on account of bonds or notes guaranteed by the Commonwealth, exceed 15% of the average annual revenues raised under the provisions of Commonwealth legislation and deposited into the Treasury (hereinafter "internal revenues") in the two fiscal years preceding the fiscal year of such proposed issuance. Section 2, Article VI of the Constitution does not limit the amount of debt that the Commonwealth may guarantee so long as the 15% limitation is not exceeded through payments by the Commonwealth on such guaranteed debt. Internal revenues consist principally of income taxes, sales and use tax, property taxes and excise taxes. Certain revenues, such as federal excise taxes on offshore shipments of alcoholic beverages and tobacco products and customs duties, which are collected by the United States Government and returned to the Commonwealth, and motor vehicle fuel taxes, crude oil and derivative products excise taxes and license fees, which are allocated to PRHTA, a discrete component unit, are not included as revenues for the purpose of calculating the debt limit, although they may be available for the payment of debt service. In addition, the portion of sales and use tax allocated to COFINA is not

included as internal revenues consistent with the legislation creating COFINA, which transfers ownership of such portion of the sales and use tax to COFINA and provides that such portion is not "available resources" under the constitutional provisions relating to the payment of debt service. At June 30, 2012, the Commonwealth is in compliance with the debt limitation requirement.

(c) Bonds Payable

The Constitution of the Commonwealth provides that public debt will constitute a first claim on the available revenue of the Commonwealth. Public debt includes general obligations and revenue bonds of the Commonwealth and any payment required to be made by the Commonwealth under its guarantees of bonds issued by blended or discretely presented component units. The full faith, credit, and taxing power of the Commonwealth are irrevocably pledged for the prompt payment of the principal and interest of the general obligation bonds.

Act No. 83 of August 30, 1991, as amended, provides for the levy of an annual special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation. The levy is made by Municipal Revenue Collection Center (CRIM by its Spanish acronym), a municipal corporation, not a component unit of the Commonwealth. CRIM is required to remit the 1.03% of property tax collected to the Commonwealth to be used by the Commonwealth's debt service fund for payment of debt service on general obligations and revenue bonds of the Commonwealth. During the year ended June 30, 2012, the total revenue and receivable reported by the Commonwealth amounted to approximately $115 million and $32 million, respectively, which are included in the debt service fund.

For financial reporting purposes, the outstanding amount of bonds represents the total principal to be repaid, plus unamortized premiums and interest accreted on capital appreciation bonds, less unaccreted discount and deferred refunding losses.

Bonds payable outstanding at June 30, 2012, including accreted interest on capital appreciation bonds, are as follows (expressed in thousands):

	General Obligation Bonds	Revenue Bonds	Total
Term bonds payable through 2046; interest payable monthly or semiannually at rates varying from 0.16% to 6.50%.	$ 5,327,603	$ 8,202,195	$ 13,529,798
Serial bonds payable through 2041; interest payable monthly or semiannually at rates varying from 0.16% to 6.75%.	5,535,505	1,925,392	7,460,897
Fixed rate bonds payable through 2057; interest payable at rates varying from 3.38% to 6.50%.	-	5,538,090	5,538,090
Capital appreciation bonds payable through 2056; no interest rate, yield ranging from 3.75% to 7.48%. (1)	166,284	4,679,805	4,846,089
The Children's Trust Fund tobacco settlement asset-backed bonds payable through 2057; interest payable or accreted semiannually at rates varying from 4.10% to 8.375%.	-	1,424,169	1,424,169
Capital Fund Program Bonds, maturing in various dates payable through 2025; interest payable semiannually at rates varying from 2.00% to 5.00%.	-	496,445	496,445
LIBOR-Based Adjustable Rate Bonds due on August 1, 2057; interest payable quarterly (1.24% at June 30, 2012).	-	136,000	136,000
Total	11,029,392	22,402,096	33,431,488
Unamortized premium (discount), net	129,683	(17,217)	112,466
Deferred refunding loss, net	(241,595)	(110,365)	(351,960)
Total bonds payable	$ 10,917,480	$ 22,274,514	$ 33,191,994

(1) Revenue bonds include $848 million capital appreciation bonds convertible to fixed rate interest bonds on August 1, 2016; August 1, 2019; and August 1, 2020.

As of June 30, 2012, debt service requirements for general obligation and revenue bonds outstanding, including accreted interest of capital appreciation bonds are as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Interest Subsidy (1)	Total
2013	$ 468,485	$ 1,435,070	$ (4,200)	$ 1,899,355
2014	503,430	1,446,413	(4,200)	1,945,643
2015	504,855	1,421,841	(4,200)	1,922,496
2016	554,555	1,397,236	(4,200)	1,947,591
2017	606,810	1,397,755	(4,200)	2,000,365
2018–2022	3,158,960	6,870,140	(21,000)	10,008,100
2023–2027	3,959,127	6,211,326	(21,000)	10,149,453
2028–2032	5,804,684	5,489,253	(21,000)	11,272,937
2033–2037	6,897,386	3,799,013	(21,000)	10,675,399
2038–2042	10,207,670	2,048,696	(21,000)	12,235,366
2043–2047	7,291,880	409,204	(1,047)	7,700,037
2048–2052	6,132,937	288,355	-	6,421,292
2053–2057	14,041,159	288,091	-	14,329,250
2058	1,037,993	22,857	-	1,060,850
Total	61,169,931	$ 32,525,250	$ (127,047)	$ 93,568,134
Less unaccreted interest	(27,738,443)			
Plus unamortized premium, net	112,466			
Less deferred refunding loss, net	(351,960)			
Total	$ 33,191,994			

(1) Sales Tax Revenue Bonds, First Subordinate Series 2010D and 2010E were issued as Build America Bonds. COFINA will receive a subsidy payment from the federal government equal to 35% and 45%, respectively, of the amount of each interest payment.

The table that follows represents governmental activities debt service payments on certain general obligation and revenue variable-rate bonds and the net payments on associated hedging derivative instruments (see Note 23) as of June 30, 2012. Although interest rates on variable rate debt and the current reference rates of hedging derivative instruments change over time, the calculations included in the table below are based on the assumption that the variable rate and the current reference rates of hedging derivative instruments at June 30, 2012 will remain the same for their term.

Year Ending June 30	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Hedging Derivative Instruments, Net	Total
2013	$ -	$ 7,812	$ 14,134	$ 21,946
2014	-	7,812	14,134	21,946
2015	-	7,812	14,134	21,946
2016	-	7,812	14,134	21,946
2017	-	7,812	14,134	21,946
2018–2022	360,340	27,203	56,905	444,448
2023–2027	12,810	8,630	28,921	50,361
2028–2032	17,030	8,490	25,928	51,448
2033–2037	-	8,446	25,010	33,456
2038–2042	-	8,446	25,010	33,456
2043–2047	-	8,446	25,010	33,456
2048–2052	-	8,446	25,010	33,456
2053–2057	-	8,446	25,010	33,456
2058	136,000	424	2,923	139,347
Total	$ 526,180	$ 126,037	$ 310,397	$ 962,614

COFINA's outstanding bonds are payable from amounts deposited in the Dedicated Sales Tax Fund in each fiscal year. The minimum amount to be deposited is the Pledged Sales Tax Base Amount, which for the fiscal year ended June 30, 2012, was $595,165,542. The Pledged Sales Tax Base Amount increases each fiscal year thereafter at a statutory rate of 4% up to $1,850,000,000. At June 30, 2012, the Pledged Sales Tax Base Amount, by year, is as follows (expressed in thousands):

Year Ending June 30	**Amount**
2013	$ 618,972
2014	643,731
2015	669,480
2016	696,260
2017	724,110
2018–2022	4,078,893
2023–2027	4,962,597
2028–2032	6,037,758
2033–2037	7,345,856
2038–2042	8,850,885
2043–2047	9,250,000
2048–2052	9,250,000
2053–2057	9,250,000
2058	1,850,000
Total	$ 64,228,542

On November 23, 2011, COFINA issued Sales Tax Revenue Bonds, First Subordinate Series 2011A amounting to approximately $734.8 million and Sales Tax Revenue Bonds, First Subordinate Series 2011B amounting to approximately $45.6 million. The Series 2011A includes current interest bonds codified on Series 2011A-1, amounting to $355 million, bearing interest rates ranging from 5% to 5.25% and maturing on August 1, 2043. The Series 2011A also includes Series 2011A-1 and 2011A-2 capital appreciation bonds amounting to $42.7 million and $337.1 million, respectively. The Series 2011A-1 capital appreciation bonds capitalize interest at an annual rate ranging from 5.25% to 6.50% each February 1 and August 1, until their maturity dates between August 1, 2023 and August 1, 2041. The Series 2011A-2 capital appreciation bonds capitalize interest at an annual rate of 7% each February 1 and August 1, until its maturity dates between August 1, 2043 and August 1, 2050. The proceeds of these bonds were used to refund certain outstanding bonds of COFINA, to repay the Junior Subordinated Bonds issued to PRIFA and ERS, and to provide funds to the Commonwealth to cover operating expenses. The $45.6 million Series 2011B bears interest rates ranging from 5% to 5.15% and matures between August 1, 2031 and August 1, 2036. The proceeds of these bonds were used to refund certain outstanding bonds of COFINA.

On December 13, 2011, COFINA issued Sales Tax Revenue Bonds, Senior Series 2011C amounting to approximately $1.0 billion and Sales Tax Revenue Bonds, Senior Series 2011D amounting to approximately $91.2 million. The Series 2011C includes current interest and term bonds amounting to $904.7 million, bearing interest rates ranging from 4% to 5.25% and mature between August 1, 2020 and August 1, 2046. The Series 2011C also includes capital appreciation bonds amounting to $101.8 million, which capitalize interest at an annual rate ranging from 6.15% to 6.25% each February 1 and August 1, until their maturity dates between August 1, 2034 and August 1, 2041. The Series 2011D bonds amounting to $91.2 million bear interest at annual rates ranging from 3.80% to 4.85% and mature between August 1, 2023 and August 1, 2036. The proceeds of these

bonds were used to redeem a portion of certain outstanding Commonwealth appropriation bonds (see note 15(d)) and to cover payments associated with swap agreements of COFINA.

On July 12, 2011, the Commonwealth issued $304 million in Public Improvement Bonds Series 2011, $52.2 million in Public Improvement Refunding Bonds Series 2011 D and $245.9 million in Public Improvement Refunding Bonds Series 2011 E. The proceeds from the issuance of the public improvement bonds were used to carry out certain capital improvements programs authorized by the Legislative Assembly in Act No. 79 and the refunding of bond anticipation notes issued under Act No. 79 to finance, on an interim basis, portions of certain capital improvement programs. The proceeds of the refunding bonds were used to refund in full certain other general obligation bonds and notes of the Commonwealth, fund the termination payments under certain interest rate swap agreements and a debt service deposit agreement entered into in connection with the issuance of the refunded bonds, pay capitalized interest on the refunding bonds, and pay the expenses related to the issuance and sale of the refunding bonds. These bonds bear interest rates ranging from 3% to 6%, payable semiannually, and mature between July 1, 2013 and July 1, 2041.

On March 29, 2012, the Commonwealth issued $415.3 million in Public Improvement Refunding Bonds Series 2012 B. The proceeds were used to repay advances under a GDB line of credit, the proceeds of which refinanced deposits to the Commonwealth's Redemption Fund for the payment of principal and interest from February 1, 2012 to July 1, 2012 on certain general obligation bonds and notes of the Commonwealth; refund certain of the Commonwealth's outstanding general obligation bonds; pay capitalized interest on a portion of the Series 2012 B bonds; and pay expenses related to the issuance and sale of the Series 2012 B bonds. These bonds bear interest rates ranging from 2.25% to 5.30%, payable monthly, and mature between July 1, 2013 and July 1, 2033.

On April 3, 2012, the Commonwealth issued $2.3 billion in Public Improvement Refunding Bonds Series 2012 A. The proceeds were used to repay advances under lines of credit due to GDB, the proceeds of which refinanced deposits to the Commonwealth's Redemption Fund for the payment of principal and interest due on January 1, 2012 and July 1, 2012 on certain general obligation bonds and notes of the Commonwealth; refund certain of the Commonwealth's outstanding general obligation bonds; fund associated termination payments due under an investment agreement and interest rate exchange agreements; pay capitalized interest on a portion of the Series 2012 A bonds; and pay expenses related to the issuance and sale of the Series 2012 A bonds. These bonds bear interest rates ranging from 4% to 5.75%, payable semiannually, and mature between July 1, 2020 and July 1, 2041.

On August 24, 2011, PBA issued $756.4 million aggregate principal amount of Facilities Revenue Bonds Series R (Qualified School Construction Bonds-Issuer Subsidy), guaranteed by the Commonwealth. The proceeds from the issuance of the Series R bonds were used to pay part of the cost of constructing, renovating, remodeling and/or improving approximately 100 public schools under a Commonwealth's program. As a result of this bond issuance, PBA received a subsidy of $28.1 million from the federal government used for the payment of interest. The Series R bonds bear interest rates at 5.65% to 5.70%, payable quarterly, and mature on July 1, 2028. Concurrently with the issuance of the Series R bonds, PBA issued $303.9 million aggregate principal amount of Facilities Revenue Bonds Series S, guaranteed by the Commonwealth. The proceeds from this issuance of the Series S bonds were used to repay certain advances made to PBA by GDB under line of credit facilities previously issued to repay interest on certain PBA outstanding bonds, pay a portion of the construction costs of certain facilities for lease, and pay the costs of issuance of these bonds. The Series S bonds bear interest rates ranging from 5% to 6%, payable semiannually, and mature between July 1, 2022 and July 1, 2041.

On December 22, 2011, PBA issued $121.5 million aggregate principal amount of Facilities Revenue Bonds Series T (Zone Academy Bonds — Direct Payment), guaranteed by the Commonwealth, the proceeds of which were used to pay part of the cost of renovating and rehabilitating certain public schools. The Series T bonds bear an interest rate of 5.60%, payable quarterly, and mature on July 1, 2030. Then, on June 21, 2012, PBA issued $582.3 million aggregate principal amount of Facilities Revenue Refunding Bonds Series U, guaranteed by the Commonwealth. The proceeds from this issuance were used to refund in whole PBA's Facilities Revenue Bonds Series J and a portion of PBA's Facilities Revenue Bonds Series D and G; repay certain advances made to PBA by GDB under a line of credit facility previously issued; pay a portion of the interest on the Series U bonds; and pay the costs of issuance of the Series U bonds. The Series U bonds bear interest rates ranging from 3.885% to 5.25%, payable semiannually, and mature between July 1, 2014 and July 1, 2042.

On August 1, 2008, Puerto Rico Housing Finance Authority (the "Authority"), a blended component unit of GDB, issued Capital Fund Modernization Program Subordinate Bonds amounting to $384 million and Housing Revenue Bonds amounting to $100 million. The proceeds from the issuance on these bonds were mainly used to finance a loan (the "Loan") to Vivienda Modernization 1, LLC, (the "LLC"). The LLC will utilize moneys from the Loan for the purpose of financing a portion of the costs of the acquisition and modernization of various housing projects in the Commonwealth and paying certain transactional costs.

The LLC is a limited liability company created under the laws of the Commonwealth whose sole member is Vivienda Modernization Holdings 1, S.E. (the "Sole Member" or the "Partnership"), a civil partnership created under the laws of the Commonwealth and pursuant to a related Partnership Agreement. The Partnership was created on August 1, 2008 by the Department of Housing of the Commonwealth of Puerto Rico ("DOH"), in its capacity as the general partner (the "General Partner") and Hudson SLP XL LLC, a Delaware limited liability company, as the Special Limited Partner (the "Special Limited Partner") and Hudson Housing Tax Credit Fund XL LP, a Delaware limited partnership, as the Investment Partnership (the "Investment Partnership"); collectively with the Special Limited Partner, (the "Limited Partners"). The Partnership has been organized exclusively to be the sole member of the LLC, which entity has been formed to acquire, develop, rehabilitate, own, maintain and operate thirty three residential rental housing developments intended for rental to persons of low and moderate income. As part of these developments, LLC is intended to acquire a 99 year term Surface Right with respect to the related land and to acquire, develop, finance, rehabilitate, maintain, operate, lease and sell or otherwise dispose of each Apartment Complex, in order to obtain for the Partnership and its Partners statutory compliance, long-term appreciation, cash income, and tax benefits consisting, of tax credits and tax losses over the term hereof.

Profits, losses and tax credits are allocated in accordance with the Partnership Agreement. Profits and losses from operations and low-income housing tax credits in any year shall be allocated 99.98% to the Investment Partnership, 0.01% to the Special Limited Partner and 0.01% to the General Partner. As defined in the Partnership Agreement, certain transactions and occurrences warrant special allocations of profits and losses. All other losses shall be allocated to the extent allowable under Section 704(b) of the U.S. IRC.

Pursuant to the Partnership Agreement, the Limited Partners are required to provide capital contributions totaling approximately $235 million to the Partnership ("Initial Projected Equity"), subject to potential adjustment based on the amount of low-income housing credits ultimately allocated to the developments in addition to other potential occurrences as more fully explained in the Partnership Agreement. As of June 30, 2012, the Limited Partners have provided capital contributions totaling $126.6 million.

Pursuant to the Partnership Agreement, the General Partner is required to provide capital contributions totaling $10 to the Partnership. Should the Partnership have not sufficient funds available to pay the outstanding balance of the developer fee thereof, as defined, the General Partner shall be required to provide additional capital contributions to the Partnership in an amount sufficient for the Partnership to pay such balance in full. The General Partner shall have no right or obligation to make any other capital contributions. As of June 30, 2012, the General Partner had provided no capital contributions. In addition, DOH as general partner shall establish the Assurance Reserve Fund at initial closing in the amount of the initial capital contribution less $4 million (plus any initial capital contribution with respect to the apartment complexes). Amounts in the Assurance Reserve Fund shall be used, (i) upon the request of the General Partner, subject to the consent of the Special Limited Partner, or (ii) upon the direction to the Special Limited Partner, to meet financial obligations of the General Partner, other than for excess development costs, as provided in the Partnership Agreement. As of June 30, 2012, such reserve was maintained in the Partnership. The amount owed to DOH for the assurance reserve fund as of June 30, 2012, amounted to $16.6 million.

On August 7, 2008, Puerto Rico Public Housing Administration ("PHA") and the LLC entered into a Regulatory and Operating Agreement (the "Agreement"). PHA and the LLC have determined that it would be desirable for the public housing rental development to undergo comprehensive modernization (e.g. new floors, electrical wiring, plumbing, windows, doors, roofs and accessibility features) or development, which modernization or development will be undertaken and operated by the LLC.

On August 7, 2008, DOH and PHA entered into an interagency agreement through which PHA transferred title to the public housing rental developments to DOH for the subsequent sale to the LLC. In addition, DOH will make a grant to the Authority from funds in the Program Modernization Fund in excess of the first receipts equal to $20 million to allow the Authority to make a permanent loan to the LLC. The Authority will provide to the LLC a (i) $100 million interim construction loan to be used in connection with the financing of the rehabilitation and/or construction work on the development from the proceeds of tax-exempt bonds issued by the Authority, (ii) $386.8 million capital fund loan in proceeds from certain tax-exempt bonds issued by the Authority, and (iii) a $100 million permanent loan.

On August 7, 2008, the LLC and DOH entered into a Purchase and Sales Agreement through which the LLC acquired the surface rights of a property (the "Property") and the improvement erected on such property consisting of buildings and construction in progress with a net book value and cost of $45.9 million and $110 million, respectively, from DOH under those certain deeds of Constitution of Surface Rights and Transfer of Improvements dated August 7, 2008, which will require the LLC to rehabilitate or construct on the Property four thousand one hundred thirty-two (4,132) residential rental units (the "Units" or collectively the "Development") all of which will receive the benefit of operating subsidy and benefit of low income housing tax credit under Section 42 of the Internal Revenue Code of 1986, as amended. Eighty-four (84) of the units, all of which will be located at the Brisas de Cayey II site, are to be newly constructed. The remaining units will be modernized.

Also, on August 7, 2008, DOH entered into a loan agreement with the LLC in the amount of $102.9 million for the acquisition of the 33 residential rental properties (the "deferred purchase price note"). The LLC shall make payments equal to the amount of net available capital contributions, as defined, for the preceding calendar quarter.

The terms of the deferred purchase price note are described as set forth below:

Commitment	$ 102,889,957
Interest rate	3.55 %
Maturity date	Later of (i) funding of the last installment of the third capital contribution or (ii) August 7, 2013

The note shall be a full recourse liability of the LLC; however, none of the LLC's members has personal liability. As of June 30, 2012, the principal balance outstanding on the deferred purchase price note was $8.9 million and accrued interest was $245 thousand. At the same time, based on the Purchase and Sale Agreement, PHA received $92.4 million from the LLC, which was used to pay eligible project expenses incurred by PHA on an interim basis to minimize the expenditure of 2003 tax exempt bonds that were ineligible for inclusion in the credit transaction. In addition, PHA received $18.1 million from the LLC for Capital Fund Bonds funds previously expensed by the PHA from June to July 2009.

PHA has entered into an Interagency Agreement dated August 7, 2008 with DOH, in DOH's capacity as general partner of the Partnership, to delegate management and operational duties related to the Development to PHA as set forth in the Interagency Agreement. The LLC and PHA also intend that the units be developed, operated and managed so as to assure receipt by the LLC of the aforementioned economic and tax benefits to the full extent available to the LLC.

Additionally, on August 7, 2008, the LLC entered into a Master Developer Agreement with DOH to perform services in connection with the development, rehabilitation, and modernization of certain housing projects (the "Master Developer Agreement"). Pursuant to the Master Developer Agreement, DOH will earn a developer's fee in the amount of $75 million for services performed and to be performed. Payment of the developer's fee shall be subject to the terms and conditions of Section 6(a) (i-iv) of the Master Developer Agreement. As of June 30, 2012, the LLC owed DOH the amount of $51.8 million.

Under the Partnership Agreement, projects which do not meet the final completion schedule or satisfy other completion, occupancy, rent attainment or tax-credit related requirements or other Investor Limited Partner conditions to capital contributions with respect to such projects as set forth in the Partnership Agreement may under certain conditions be required to be purchased by DOH or its designee. In such case, DOH or its designee would assume the portion of the Loan allocated to such project(s), including both moneys remaining to be disbursed and repayment obligations, and would become a new additional borrower under the loan agreement. The LLC would be released with respect to the amount of the Loan assumed. DOH or its designee could also seek to obtain a limited partner (who might or might not be the original Investor Limited Partner) and tax credit equity contributions. Such transfer does not affect the obligation of DOH to grant moneys to the Authority to fund the permanent loan. As a requirement of such purchase, DOH or its designee is required to repay equity already contributed by the Investor Limited Partner, plus interest and a purchase premium.

The Commonwealth's bonds payable are subject to arbitrage regulations issued by the Internal Revenue Service of the United States of America, that require rebate to the federal government of excess investments earnings on tax-exempt debt proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt debt issued. Excess earnings must be rebated every five years or upon maturity of the debt, whichever is earlier. Arbitrage calculations resulted in no liability as of June 30, 2012.

(d) Commonwealth Appropriation Bonds

Over the years, GDB, as fiscal agent and the bank for the Commonwealth, had extended lines of credit, advances, and loans to several agencies and component units of the Commonwealth in order to finance their capital improvement projects and to cover their operational deficits at the time. At different points in time, these loans were refunded through the issuance of Commonwealth appropriation bonds issued by the Puerto Rico Public Finance Corporation (PFC), a blended component unit of GDB, which serves only as a conduit for the issuance of the bonds. Also, during more recent years, COFINA, through the issuance of bonds, has been used to repay certain other loans and existing appropriation bonds. COFINA is a blended component unit of the Commonwealth created in 2007 with the capacity to issue bonds to repay or refund advances from GDB, the appropriation bonds referred to above, and other debt obligations, collectively referred as the extra constitutional debt. COFINA's debt in turn is currently being serviced with the revenues generated from the collection of the first 2.75% of the sales and use tax, which came in effect on November 15, 2006.

On August 18, 2011, PFC issued its $242.4 million 2011 Series A bonds, the proceeds of which were used to repurchase a portion of its 2004 Series A bonds issued under Act No. 164, pay interest on the 2011 Series A bonds through February 1, 2012, and pay the cost of issuance of the such bonds. The Commonwealth recognized a mirror effect of this current refunding by PFC in its own debt in proportion to the portion of the Commonwealth's notes included in the PFC refunding. This current refunding resulted in a deferred loss of approximately $2.3 million for the entire reporting entity of the Commonwealth.

On December 13, 2011, COFINA issued Sales Tax Revenue Bonds, Senior Series 2011 C and 2011 D in the amount of $1.0 billion and $91.2 million, respectively, the proceeds of which were used to redeem a portion of PFC 2004 Series A Bonds (Act No. 164 — $326.9 million, PRASA's Superaqueduct — $195.1 million, OMEP — $88.6 million, Health Facilities and Services Administration — $39 million, Treasury Department — $22.5 million), cover certain payments associated with swap agreements of COFINA, and pay a portion of interest and the costs of issuance of these new COFINA bonds. These redemptions resulted in a loss of $42.9 million for the entire reporting entity of the Commonwealth.

On December 15, 2011, PFC issued its $437.6 million 2011 Series B bonds, the proceeds of which were used to currently refund the outstanding balance of the PFC 2004 Series A Bonds (Act No. 164 — $220.7 million, PRASA's Superaqueduct — $131.7 million), and pay a portion of the interest and the costs of issuance of these new PFC bonds. The Commonwealth recognized a mirror effect of this current refunding by PFC in its own debt in proportion to the portion of the Commonwealth's notes included in the PFC refunding. This current refunding resulted in a deferred gain of approximately $4.1 million for the entire reporting entity of the Commonwealth.

On June 28, 2012, PFC issued its $410.7 million 2012 Series A bonds, the proceeds of which were used to currently refund the then outstanding balance of the PFC 2001 Series C, 2002 Series A bonds, and 2003 Series A bonds, and pay a portion of the interest and the costs of issuance of these new PFC bonds. The Commonwealth recognized a mirror effect of this current refunding by PFC in its own debt in proportion to the portion of the Commonwealth's notes included in the PFC refunding. These current refundings resulted in a deferred loss of approximately $4.5 million for the entire reporting entity of the Commonwealth.

At June 30, 2012, the outstanding balance of the Commonwealth appropriation bonds pertaining to the primary government (i.e. excluding the balance pertaining to discretely presented component units), consists of the following obligations (expressed in thousands):

Act. No. 164 restructuring	$ 415,716
Puerto Rico Maritime Shipping Authority (PRMSA)	117,195
Total Commonwealth appropriation bonds	$ 532,911

Act No. 164 Restructuring — On December 17, 2001, Act No. 164 was approved, which authorized certain government agencies and discretely presented component units to refund approximately $2.4 billion of their outstanding obligations with GDB, for which no repayment source existed, over a period not exceeding 30 years, and to be repaid with annual Commonwealth appropriations not to exceed $225 million. This refunding was originally executed with Commonwealth appropriation bonds through several series issued by PFC during the period between December 2001 and June 2002. Subsequently, additional refundings (current and advance) and/or redemptions of the Act No. 164 restructuring have been executed through PFC and COFINA bond issuances.

Approximately $415.7 million of the Commonwealth Appropriation bonds outstanding at June 30, 2012, belong to the primary government under Act No. 164, predominantly the Department of Health of the Commonwealth (health reform financing and other costs) and the Department of the Treasury of the Commonwealth (originally the fiscal year 2001 deficit financing and the obligation assumed for defective tax liens). The outstanding balance of Commonwealth Appropriation bonds related to Act No. 164, bears interest at rates ranging from 3.10% to 6.50%. Debt service requirements in future years are as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2013	$ -	$ 22,541	$ 22,541
2014	-	22,241	22,241
2015	-	22,241	22,241
2016	25,578	21,581	47,159
2017	20,749	20,852	41,601
2018-2022	116,183	90,757	206,940
2023-2027	63,699	68,895	132,594
2028-2031	206,419	18,589	225,008
Total	432,628	$ 287,697	$ 720,325
Plus unamortized premium	4,935		
Less deferred refunding loss	(21,847)		
Total	$ 415,716		

Puerto Rico Maritime Shipping Authority (PRMSA) — A promissory note payable owed by PRMSA to GDB was assumed by the Commonwealth in connection with the sale of the maritime operations of PRMSA. Commonwealth appropriation bonds, 2003 Series B and 2004 Series B were issued to refund this liability, which were currently refunded in June 2012 with the issuance of PFC 2012 Series A bonds described above.

The new bond balance bears interest at a variable rate ranging from 3.10% to 5.35%. Debt service requirements in future years are as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2013	$ -	$ 6,325	$ 6,325
2014	-	6,837	6,837
2015	-	6,837	6,837
2016	-	6,837	6,837
2017	-	6,837	6,837
2018–2022	-	34,186	34,186
2023–2027	83,384	23,777	107,161
2028–2031	48,310	10,769	59,079
Total	131,694	$ 102,405	$ 234,099
Less deferred refunding loss	(14,499)		
Total	$ 117,195		

(e) Advance Refunding, Defeased Bonds, and Refunding of Commonwealth Appropriation Bonds

In prior years, the Commonwealth defeased certain general obligation and other bonds by placing the proceeds of the bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust's account assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2012, approximately $1.3 billion of bonds outstanding from prior years' advance refunding are considered defeased.

PBA has defeased certain revenue bonds in prior years by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old debts. Accordingly, the trust's account assets and liabilities for the defeased bonds are not included in the statement of net assets (deficit). As of June 30, 2012, approximately $426 million of PBA's bonds are considered defeased.

During fiscal year 2012, COFINA issued certain refunding bonds, the proceeds of which were placed in an irrevocable trust to provide for all future debt service payments on the refunded COFINA Series 2009A and 2009B bonds. The outstanding balance of the advance refunded bonds was $91.3 million at June 30, 2012.

(f) Notes Payable to Component Units and Others

The Commonwealth has entered into various short-term line of credit agreements with GDB consisting of the following at June 30, 2012 (expressed in thousands):

Agency	Purpose	Interest Rate	Line of Credit	Outstanding Balance
Department of the Treasury	To fund information technology project	125 bp over GDB's commercial paper rate	$44,868	$14,301
Department of the Treasury	Purchase of mobile X-ray machines	125 bp over 3 months LIBOR	12,000	2,583
			$56,868	$16,884

The Commonwealth financed certain other long-term liabilities through GDB and other component units. The outstanding balance at June 30, 2012 on the financing provided by GDB comprises the following, all within governmental activities (expressed in thousands):

GDB:

Department of the Treasury	$ 805,076
Office of Management and Budget	142,463
Public Buildings Authority	137,354
Department of Education	111,720
Department of Transportation and Public Works	82,301
Department of Agriculture	67,358
Department of Justice	52,402
Department of Health	45,792
Police Department	33,309
Department of Housing	31,515
Correction Administration	25,970
Office of the Superintendent of the Capitol	22,474
Puerto Rico Court Administration Office	17,506
Department of Recreation and Sports	9,647
Office of Veterans' Affairs	38
Notes payable to GDB	$1,584,925

Other Components Units:

Health facilities agreement payable to the UPR's Medical Sciences Campus	$ 24,720
Note payable to PREPA	6,273
Notes payable to other component units	$ 30,993

As of June 30, 2012, the Department of the Treasury of the Commonwealth has entered into various line of credit agreements with GDB amounting to approximately $2 billion for different purposes as presented in the following table. The purpose, interest rate, maturity date, and amount outstanding under each individual agreement at June 30, 2012 consist of the following (expressed in thousands):

Purpose	Interest Rate	Maturity	Line of Credit	Outstanding Balance
To finance payroll and operational expenditures of the Commonwealth for fiscal year 2006.	5.50%	June 30, 2036	$ 741,000	$223,468
Resources to meet appropriations in annual budget of the Commonwealth (fiscal year 2004) and federal programs expenditures	125 bp over 3 month LIBOR	June 30, 2018	640,000	145,740
To pay lawsuits against the Commonwealth and to assign $15.3 million to Labor Development Administration for operational expenses.	6%	June 30, 2018	160,000	144,559
To finance capital improvements projects of agencies and municipalities.	150 bp over GDB's commercial paper rate	June 30, 2019	130,000	87,847
To pay agencies debt	125 bp over 3 month LIBOR	September 30, 2012	100,000	72,870
To finance capital improvements projects for several governmental agencies	7%	June 30, 2018	105,000	72,376
Resources to cover the operational needs of the catastrophic disasters fund (fiscal year 2004) of the Puerto Rico Health Insurance Administration and the Department of the Family	125 bp over 3 month LIBOR	September 30, 2015	79,930	43,187
To pay invoices presented to the Treasury Department related to Act No. 171 "Ley de Manejo de Neumáticos".	6%	June 30, 2019	22,100	7,520
Acquisition of Salinas Correctional Facilities	125 bp over 3 month LIBOR	June 30, 2018	15,000	7,509
Total			$ 1,993,030	$805,076

On June 5, 2006, the Office of Management and Budget entered into a $150 million line of credit agreement with GDB to provide economic assistance for disasters and emergencies. Borrowings under this line of credit agreement bore interest at variable rates based on 125 basis points over three month LIBOR and were payable upon the original maturity of the line of credit on September 30, 2011. On July 22, 2011, the Office of Management and Budget and GDB amended the $150 million line of credit agreement to extend its maturity date to July 30, 2022. In addition, the agreement was converted to a revolving line of credit bearing interest at 150 basis points over Primer Rate, but in no event shall such rate be less than 6% per annum. As of June 30, 2012, $142.5 million were outstanding.

On May 23, 2012, the Office of Management and Budget entered into a $100 million line of credit agreement with GDB to cover costs related to Act No. 70 of 2010. Borrowings under this line of credit bear interest at prime rate plus 1.50% with a floor of 6%. The line of credit matures on July 31, 2027.

On August 18, 2010, GDB provided to PBA a non-revolving credit facility in the maximum principal amount of $93.6 million bearing interest at a fluctuating annual rate equal to Prime plus 1.50%, provided that such interest shall not be less than 6%, or at such other rate determined by GDB. The proceeds of the facility were used for construction projects development. The loan is due on June 30, 2014 and will be payable from the proceeds of future revenue refunding bond issuance of PBA. As of June 30, 2012, $29.9 million were outstanding. On April 27, 2009, GDB provided to PBA a non-revolving credit facility in the maximum principal amount of $98.5 million bearing interest on the unpaid principal amount of each advance at a fluctuating annual rate equal to 1.50% over and above the Prime Rate or at such other rate determined by GDB. The proceeds were used exclusively for the payment of certain amounts due by PBA to its suppliers and service providers. The loan and the accrued interest have no established repayment date and will be payable from all funds generated by PBA and any other properties owned and pledged to GDB. As of June 30, 2012, $4.1 million were outstanding. PBA also maintains a $75 million line of credit agreement with GDB for payment of operational expenses. Borrowings under this line of credit agreement bear interest at a fixed rate of 7%, and are payable upon maturity on June 30, 2018. As of June 30, 2012, $68 million were outstanding. In addition, on May 2, 2008, PBA executed two Loan Agreements with GDB for the interim financing of its Capital Improvement Program in an amount not to exceed $226 million, bearing interest at 6%. The loans and the accrued interest are due on June 30, 2014 and will be repaid from the proceeds of the future revenue refunding bond issuance of PBA. The loans are divided into $209 million on a tax-exempt basis and $16.9 million on a taxable basis. As of June 30, 2012, $35.4 million were outstanding.

On February 6, 2003, the Department of Education of the Commonwealth entered into a $25 million line of credit agreement with GDB for the purchase of equipment and for school improvements. Borrowings under this line of credit agreement bear interest at variable rates based on 125 basis points over three month LIBOR, and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2012, $4.8 million was outstanding. On August 4, 2002, the Department of Education of the Commonwealth entered into an additional $140 million line of credit agreement with GDB in order to reimburse the Department of the Treasury of the Commonwealth for payments made on their behalf for state funds used to fund federal program expenditures. Borrowings under this line of credit agreement bear interest at variable rates based on 125 basis points over three month LIBOR and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2012, $106.9 million still remains outstanding related to this line of credit agreement. The line of credit is expected to be repaid upon collection of the federal grants.

The Department of Transportation and Public Works of the Commonwealth entered into four line-of-credit agreements with GDB amounting to $118 million for improvement and maintenance of roads around the island. Borrowings under these lines of credit bear interest at a 7% rate and are payable upon maturity of the line of credit on June 30, 2018. As of June 30, 2012, $82.3 million was outstanding.

On August 9, 1999, the Department of Agriculture of the Commonwealth entered into a $125 million non-revolving line of credit agreement with GDB to provide economic assistance to the agricultural sector, which sustained severe damages caused by Hurricane Georges in 1998. As of February 24, 2004, the line of credit increased by $50 million resulting in a total amount of $175 million. Borrowings under this line of credit agreement bear interest at a fixed rate of 7% and

is payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2012, $67.4 million were outstanding.

On October 2, 2002, the Department of Justice of the Commonwealth entered into a $90 million line of credit agreement with GDB for the financing of 12 public improvement projects for the Municipality of Ponce pursuant to a court order. Borrowings under this line of credit agreement bear interest at variable rates and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2012, $18.6 million related to this line of credit agreement were outstanding. On August 8, 2005, the Department of Justice of the Commonwealth entered into an amended agreement to increase the aforementioned line of credit from $90 million to $110 million to cover various additional projects in Ponce, pursuant to the same court order. Borrowings under the new amended line of credit agreement bear interest at 7% rate and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2012, the balance outstanding under this amended line of credit agreement amounted to $33.8 million.

In August 2003, the Department of Health of the Commonwealth entered into a $30 million line of credit agreement with GDB in order to repay certain outstanding debts that the PRMeSA had with other agencies and suppliers. Borrowings under this line of credit agreement bear interest at a fixed rate of 7% and are payable upon maturity of the line of credit on June 30, 2018. As of June 30, 2012, $22.4 million related to this line of credit agreement were outstanding. On November 8, 2004, the Department of Health entered into an additional $58.5 million line of credit agreement with GDB for the financing of a project of the Department of Health and PRMeSA. Borrowings under this line of credit agreement bear interest at variable rates based on 150 basis points over GDB's commercial paper rate and are payable upon the maturity of the line of credit on October 31, 2014. As of June 30, 2012, the outstanding balance of this line of credit agreement amounted to $18.9 million. On February 14, 2008, the Department of Health also entered into an additional $8 million line of credit agreement with GDB to cover costs of treatment, diagnosis and supplementary expenses during fiscal year 2008 in conformity with Act 150. This line of credit was classified as short term at June 30, 2011, but was extended to a long-term basis during fiscal year 2012 and reclassified as long-term accordingly. Borrowings under this line of credit agreement bear interest at variable rates based on 125 basis points over three month LIBOR and are payable upon maturity of the line of credit on June 30, 2040. As of June 30, 2012, the outstanding balance of this line of credit agreement amounted to $4.5 million.

On July 29, 2004, the Police Department of the Commonwealth entered into a $48 million line of credit agreement with GDB for the acquisition of vehicles and high technology equipment. Borrowings under this line of credit agreement bear interest based on the All Inclusive Total Interest Cost of the Medium Term Notes, Series B, plus a mark-up of 1.25% and are payable upon the maturity of the line of credit on September 30, 2014. The outstanding balance of this line of credit agreement amounted to $33.3 million at June 30, 2012.

On March 8, 2007, the Department of Housing entered into a $19 million line of credit agreement with GDB, to reimburse the Puerto Rico Housing Financing Authority, a blended component unit of GDB for certain advances made for the Santurce Revitalization Project. This line of credit was classified as short term at June 30, 2011, but was extended to a long-term basis during fiscal year 2012 and reclassified as long-term accordingly. Borrowings under this line of credit agreement bear interest at a variable rate of three-month LIBOR plus 1.25%, not to exceed 4% and are payable upon maturity of the line of credit on June 30, 2040. As of June 30, 2012, the line of credit has an outstanding balance of $9.3 million. On December 3, 2007, the Department of Housing entered into an additional $30 million line of credit agreement with GDB for the purchase of Juan C. Cordero Dávila building. Borrowings under this line of credit agreement bear interest based on 75 basis

points over three month LIBOR and are payable upon maturity of the line of credit on February 28, 2038. As of June 30, 2012, $22.2 million related to this line of credit agreement were outstanding.

On May 12, 2004, the Correction Administration of the Commonwealth entered into a $60 million line of credit agreement with GDB for improvements to certain correctional facilities. Borrowings under this line of credit agreement bear interest at fixed 7% rate and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2012, $7.1 million were outstanding. In addition, on November 24, 2010, Correction Administration of the Commonwealth entered into an $80 million line of credit agreement with GDB for the construction of a new correctional medical center. Borrowings under this line of credit agreement bear interest at a rate per annum equal to Prime Rate as such rate shall change from time to time, plus 150 basis points, effective as of each change in the Prime Rate, but in no event shall such rate be less than 6% per annum nor greater than 12% per annum and are payable upon the maturity of the line of credit on January 31, 2013. As of June 30, 2012, $18.9 million were outstanding.

On February 15, 2002, the Office of the Superintendent of the Capitol entered into a $35 million line of credit agreement with GDB for the Office of the Superintendent of the Capitol parking's construction. Borrowings under this line of credit agreement bear interest at a fixed rate of 7% and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2012, $16.3 million remained outstanding from the line of credit agreement. On February 9, 2012, the Office of the Superintendent of the Capitol entered into an additional $15 million line of credit agreement with GDB for permanent improvements of existing buildings. Borrowings under this line of credit agreement bear interest at 150 basis points over Prime Rate and shall not be less than 6% nor greater than 12% per annum and are payable upon maturity of the line of credit on June 30, 2018. As of June 30, 2012, $6.2 million were outstanding.

On May 7, 2001, the Puerto Rico Court Administration Office (the "Office") entered into a $49.4 million non-revolving line of credit agreement with GDB for operating purposes. Borrowings under this line of credit agreement bear interest at a variable rate of three month LIBOR plus 1%, not to exceed 8%. The Office must deposit $6 million a year, from the total fees collected on the filing of civil cases, in a special fund created by the Department of the Treasury of the Commonwealth, which is pledged for repayment until July 31, 2015. As of June 30, 2012, approximately $17.5 million remains outstanding.

On January 18, 2005, the Department of Recreation and Sports of the Commonwealth (DRS) entered into a $17.2 million line of credit agreement with GDB for the development of a series of recreational projects at different municipalities. Borrowings under this line of credit agreement bear interest based on 150 basis points over GDB's commercial paper rate and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2012, $0.5 million were outstanding. Also, on February 9, 2004, the DRS entered into a $16 million line of credit agreement with GDB for the development and improvement of recreational facilities. Borrowings under this line of credit agreement bear interest on the unpaid principal amount of each advance at a fixed rate of 7% and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2012, $0.5 million were outstanding. An additional line of credit agreement was entered into between GDB and the DRS in the maximum principal amount of $17.6 million bearing interest on the unpaid principal amount of each advance at a fixed rate of 7% and are payable upon the maturity of the line of credit on June 30, 2018. The line of credit proceeds were used for development and improvement of recreational facilities. As of June 30, 2012, $8.6 million were outstanding.

On February 14, 2012, the Office of Veterans' Affairs entered into a $7.5 million line of credit agreement with GDB for betterments to the Veterans' House in Juana Diaz and for phase I of the

Veterans' Graveyard Construction. Borrowings under this line of credit agreement bear interest at a rate that will not be less than 6% nor greater than 12% per annum and are payable upon maturity of the line of credit on March 31, 2015. As of June 30, 2012, $38 thousand were outstanding.

As of July 1, 1999, debts of approximately $102 million payable to UPR, a discretely presented component unit, in relation to outstanding noninterest bearing debt accumulated in prior years by HFSA were transferred to the Commonwealth. On September 7, 2004, additional debts of approximately $71.2 million were also restructured and combined with the previous financing arrangement. As of June 30, 2012, $9.7 million remains outstanding of this arrangement. The Commonwealth has also agreed to pay the UPR $20 million related to Commonwealth legislative scholarships for fiscal years 2008 and 2009, which are payable in annual installments of $5 million. As of June 30, 2012, $15 million remains outstanding. Future amounts required to pay principal balances at June 30, 2012 are expected to be as follows (expressed in thousands):

Year Ending June 30	
2013	$ 13,000
2014	6,720
2015	5,000
Total	$ 24,720

The noninterest bearing note payable to PREPA, a discretely presented component unit, consists of a fuel adjustment subsidy due by the Commonwealth and the refinancing during 2004 of other accumulated debt by the Commonwealth's agencies with PREPA. The outstanding balance of $6.3 million at June 30, 2012 is expected to be paid with a last installment in 2013.

With the exception of a few lines of credit having a defined source of repayment, the remaining lines of credit described above used Commonwealth appropriations as the source of repayment until June 30, 2007. Beginning in fiscal year 2008, these lines of credit have been repaid or refunded with a combination of Commonwealth appropriations and COFINA under the mechanism described in Note 15(d).

(g) Compensated Absences

Long-term debt includes approximately $1.4 billion of accrued vacation and sick leave benefits at June 30, 2012. The total liability of compensated absences recorded as governmental and business type activities amounted to $1.4 billion and $5 million, respectively.

(h) Net Pension Obligation

The amount reported as net pension obligation of approximately $11.2 billion represents the cumulative amount owed by the Commonwealth for the unfunded prior years' actuarially required pension contributions to the ERS, JRS, and the TRS (collectively known as the pension plans) (see Note 20). The net pension obligation has been recorded as a liability in governmental activities in the accompanying statement of net assets (deficit).

(i) Net Postemployment Benefit Obligation

The amount reported as net postemployment benefit obligation other than pension of approximately $215.2 million represents the cumulative amount owed by the Commonwealth for the unfunded prior years' actuarially required other postemployment benefit contributions to the ERS MIPC, JRS MIPC, and the TRS MIPC (see Note 21). The net other postemployment benefit obligation has been recorded as a liability in governmental activities in the accompanying statement of net assets (deficit).

(j) Unpaid Lottery Prizes

The amount reported as unpaid lottery prizes represents the lottery prizes payable of the Lottery of Puerto Rico (commonly known as "Traditional Lottery") and the Additional Lottery System (commonly known as "Lotto") jointly known as the Lottery Systems at June 30, 2012. The minimum annual payments related to unpaid awards of both lotteries are as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2013	$ 49,883	$ 9,778	$ 59,661
2014	22,322	10,119	32,441
2015	19,084	9,924	29,008
2016	16,911	9,995	26,906
2017	14,884	9,877	24,761
2018–2022	46,380	39,148	85,528
2023–2027	18,386	19,489	37,875
2028–2031	3,736	3,609	7,345
Total	$ 191,586	$ 111,939	$ 303,525

The minimum annual payments related to unpaid awards of Lotto include unclaimed prizes liability of approximately $11.4 million at June 30, 2012, which is reported as prizes payable — current portion.

The liability for unpaid lottery prizes is reported in the accompanying statement of net assets (deficit) — business — type activities and statement of net assets (deficit) — proprietary funds.

(k) Claims Liability for Insurance Benefits

The Commonwealth provides unemployment compensation, no occupational disability, and drivers' insurance coverage to public and private employees through various insurance programs administered by the Department of Labor and Human Resources of the Commonwealth. These insurance programs cover workers against unemployment, temporary disability, or death because of work or employment related accidents or because of illness suffered as consequence of their employment.

The Commonwealth establishes liabilities for incurred but unpaid benefits and benefit adjustment expenses based on the ultimate cost of settling the benefits. Insurance benefit claim liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The liability for insurance benefits claims is reported as a

current liability in the accompanying statement of net assets (deficit) business type activities — and statement of net assets (deficit) proprietary funds. The liability as of June 30, 2012, amounts to approximately $73 million.

(l) Obligations under Capital Lease Arrangements

The Commonwealth is obligated under capital leases with third parties that expire through 2038 for land, buildings, and equipment.

The present value of future minimum capital lease payments at June 30, 2012 reported in the accompanying government wide statement of net assets (deficit) is as follows (expressed in thousands):

Year Ending June 30	
2013	$ 26,424
2014	22,528
2015	22,258
2016	22,164
2017	22,150
2018–2022	101,904
2023–2027	101,016
2028–2032	90,098
2033–2037	39,832
2038	2,994
Total future minimum lease payments	451,368
Less amount representing interest costs	(226,933)
Present value of minimum lease payments	$ 224,435

Leased land, buildings, and equipment under capital leases in capital assets at June 30, 2012, include the following (expressed in thousands):

Land	$ 7,960
Buildings	254,886
Equipment	6,096
Subtotal	268,942
Less accumulated amortization	(59,472)
Total	$ 209,470

Amortization charge applicable to capital leases and included within depreciation expense of capital assets amounted to $6.7 million in 2012.

The Commonwealth is also committed under numerous non-cancellable long-term operating lease agreements which expire through 2038, covering land, office facilities, and equipment. Rental

expenditure within the governmental funds for the year ended June 30, 2012 under such operating leases was approximately $130 million.

The future minimum lease payments for these leases are as follows (expressed in thousands):

Year Ending June 30	
2013	$ 100,691
2014	70,940
2015	51,978
2016	31,614
2017	21,727
2018–2022	34,571
2023–2027	16,646
2028–2032	8,436
2033–2037	1,272
Total future minimum lease payments	$ 337,875

(m) Termination Benefits Payable

Voluntary Termination Benefits — On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides early retirement benefits or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70 applies to agencies and component units whose budgets are funded in whole or in part by the General Fund.

Act No. 70 established that early retirement benefits ("early retirement program") will be provided to eligible employees that have completed between 15 to 29 years of credited services in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50% of each employee's salary, as defined. Pursuant to Act No. 70, the Commonwealth, as employer, will continue making the applicable employer contributions to the Retirement System, as well as covering the annuity payments to the employees opting for the early retirement, until both the years of service and age requirements for full vesting would have occurred, at which time the applicable Retirement System will continue making the annuity payments.

Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System ("incentivized resignation program") or who have at least 30 years of credited service in the Retirement System and the age for retirement or who have the age for retirement ("incentivized retirement program"). Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years.

Additionally, eligible employees that choose to participate in the early retirement program or in the incentivized resignation program are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Commonwealth.

In addition, Act No. 70 allows certain component units of the Commonwealth that operate with their own resources to implement a similar program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. The benefits and the requirements are the same provided by Act No. 70, except as follows: in the early retirement benefit program, the component unit will make the employee and the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System; and in the incentivized retirement program, the component unit will make the employee and the employer contributions to the Retirement System for a five year period.

The following table summarized the financial impact resulting for the benefits granted to participants of Act No. 70 and similar programs in the government wide financial statements as of and for the year ended June 30, 2012 (expressed in thousands):

	Primary Government			
Accrued Voluntary Termination	**Governmental Activities**	**Business-Type Activities**	**Totals Primary Government**	**Component Units**
Benefits as of June 30, 2012:				
Current liabilities	$ 63,918	$ 587	$ 64,505	$ 24,323
Noncurrent liabilities	589,607	4,655	594,262	179,431
Total	$ 653,525	$ 5,242	$ 658,767	$ 203,754
Expenses for the year ended June 30, 2012	$ 316,548	$ 2,686	$ 319,234	$ 49,787

At June 30, 2012, unpaid long-term benefits granted on Act No. 70 were discounted at interest rates that range from 0.85% to 1.82% at the primary government level and from 0.30% to 3.46% at the component units level.

By Act No. 70, the General Fund of the Commonwealth must appropriate on an annual basis funds necessary to cover the annual payments of Act No. 70 on certain components units. Discounted termination benefits payable of these component units amounted to approximately $70.2 million as of June 30, 2012.

Involuntary Termination Benefits — The Commonwealth has a current liability of approximately $3.6 million as of June 30, 2012 for unpaid involuntary termination benefits occurred in prior years.

(n) Other Long-term Liabilities

The remaining long-term liabilities of governmental activities at June 30, 2012 include (expressed in thousands):

Liability for legal claims and judgments (Note 19)	$1,510,645
Liability for salary increases granted through legislation	342,100
Liability to U.S. Army Corps of Engineers (Note 13)	225,562
Employees' Christmas bonus	133,579
Liability for federal cost disallowances (Note 19)	107,039
Liability to the Puerto Rico System of Annuities and Pensions for Teachers	32,292
Other	70,362
Total	$2,421,579

The Commonwealth, through laws dating back to 1954, has granted eligible police agents, various salary-related benefits such as annual salary increases, awards for years of service, and monetary benefits awarded for special assignments, among others. As of June 30, 2012, the Commonwealth's liability related to these salary-related benefits amounted to approximately $342 million.

As described in Note 13, the Commonwealth has a debt obligation with the U.S. Army Corps of Engineers in relation to its estimated allocated share of the construction costs associated with the Cerrillos Dam and Reservoir Project. Late in April 2011, the Commonwealth received a final debt agreement from the U.S. Army Corps of Engineers establishing a repayment schedule for its allocated share of the construction costs associated with the Cerrillos Dam and Reservoir Project, amounting to $214 million, excluding those costs for items built for recreational purposes. Unpaid allocated share of these construction costs amounted to $212 million, plus accrued interest of $163 million, at June 30, 2012 and it is payable on annual installment payments. The expected maturity date of this debt obligation is June 5, 2046. Due payments of principal and interest on this debt obligation, including late fees, amounted to $27 million and $163 million, respectively, at June 30, 2012 and were recorded in the accompanying Governmental Funds- General Fund's financial statements as of June 30, 2012. This debt obligation bears interest at 6.063%. Debt service requirements on this debt obligation with fixed maturities at June 30, 2012 were as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2013	$ 28,486	$ 174,640	$ 203,126
2014	1,858	11,104	12,962
2015	1,971	10,991	12,962
2016	2,090	10,872	12,962
2017	2,217	10,745	12,962
2018–2022	13,271	51,537	64,808
2023–2027	17,813	46,996	64,809
2028–2032	23,908	40,900	64,808
2033–2037	32,090	32,719	64,809
2038–2042	43,072	21,737	64,809
2043–2046	44,849	6,998	51,847
Total	$ 211,625	$ 419,239	$ 630,864

In addition, the Commonwealth has a debt obligation of $14 million with the U.S. Army Corps of Engineers in relation to its estimated allocated share of the construction costs associated with the recreational part of the Cerrillos Dam and Reservoir Project, including accrued interest of $4 million, at June 30, 2012. The final debt agreement with the U.S. Army Corps of Engineers for the recreational part of the Cerrillos Dam and Reservoir Project has not been finalized, and therefore, terms and conditions could differ from those estimated. The related debt is expected to be payable on annual installment payments over a 35 year period. However, the debt has been presented as a long-term payable after one year in the accompanying statement of net assets (deficit) since the commencement date of repayment has not yet been determined.

On October 10, 2012, following a 30-days payment notice issued on August 15, 2012 by the U.S. Army Corps of Engineers to the Secretary of the Treasury of the Commonwealth demanding payment of the amounts due and payable for $190,164,357 associated with the Cerrillos Dam and Reservoir Project, the U.S. Army Corps of Engineers placed such debt into the U.S. Treasury Department Offset Program (the Offset Program). Upon placing this debt under the Offset Program, the U.S. Treasury Department withheld federal funding, otherwise directed to certain Commonwealth's agencies and instrumentalities recipients, in order to repay the aforementioned amount due on behalf of the U.S. Army Corps of Engineers. As interest penalties have continued to accrue, the balance that was subject to the Offset Program amounted to $190,644,452 at

September 15, 2012. Through May 13, 2013, the amounts already withheld under the Offset Program and applied to the debt amounted to $157.8 million. On May 15, 2013, the Secretary of the Treasury of the Commonwealth requested the U.S. Army Corps of Engineers an immediate stay of the Offset Program and the forgiveness of the cumulative penalty interests accrued since 1998. In addition, a new payment plan consisting of 32 annual payments of $7,076,760, including interests at 1.5% through the year 2045 and a final payment of $6,972,177, including interest, to be made in the year 2046, was proposed by the Secretary of the Treasury. During the seven months period ended in May, 2013, the Offset Program impacted the following federal programs (in thousands):

Rum Taxes Program	$ 117,331
Department of Education	36,917
Regional Analytical Service Program	2,067
Office of the Veteran's Obudsman	1,042
Others	459
Total	$ 157,816

(o) Fiduciary Funds

On February 27, 2007, the ERS's administration and GDB, acting as ERS's fiscal agent (the "Fiscal Agent"), presented to the Board of Trustees, a financial transaction for the issuance of pension funding bonds in order to reduce the ERS's unfunded actuarial accrued liability. The ERS authorized the issuance of one or more series of bonds (the "Bonds") in order to increase the funds available to pay pension benefits to certain of its beneficiaries and reduce its unfunded accrued actuarial pension liability. The ERS pledged future employer contributions to the payment of the Bonds, invested the proceeds of the Bonds, and used these investments and the earnings thereon to provide pension benefits to its beneficiaries.

On January 31, 2008, the ERS issued the first series of Bonds, which consisted of approximately $1.6 billion aggregate principal amount of Senior Pension Funding Bonds, Series A (the "Series A Bonds"). On June 2, 2008, the ERS issued the second of such series of Bonds; which consisted of approximately $1,059 million aggregate principal amount of Senior Pension Funding Bonds, Series B (the "Series B Bonds"). Finally, on June 30, 2008, the ERS issued the third and final of such series of Bonds, which consisted of approximately $300 million aggregate principal amount of Senior Pension Funding Bonds, Series C (the "Series C Bonds"). The following is a summary of changes in the bonds payable principal balance (expressed in thousands):

	Balance at June 30, 2011	Additions/ Accretion	Balance at June 30, 2012
5.85% to 6.45% Term and Capital Appreciation Bonds Series A maturing from 2023 through 2058	$ 1,599,255	$ 3,494	$ 1,602,749
6.25% to 6.55% Term and Capital Appreciation Bonds Series B maturing from 2028 through 2058	1,110,763	19,226	1,129,989
6.15% to 6.50% Term and Capital Appreciation Bonds Series C maturing from 2028 through 2043	300,672	176	300,848
Bond discounts	(7,208)	215	(6,993)
Total	$ 3,003,482	$ 23,111	$ 3,026,593

As of June 30, 2012, the outstanding balance of the Bonds is as follows (in thousands):

Description	
Series A Bonds:	
Capital Appreciation Bonds, maturing in 2029, bearing interest at 6.20%	$ 58,979
Term Bonds, maturing in 2024, bearing interest at 5.85%	200,000
Term Bonds, maturing from 2032 through 2039, bearing interest at 6.15%	679,000
Term Bonds, maturing from 2040 through 2043, bearing interest at 6.20%	332,770
Term Bonds, maturing from 2056 through 2059, bearing interest at 6.45%	332,000
Total Series A Bonds outstanding	1,602,749
Series B Bonds:	
Capital Appreciation Bonds, maturing from 2029 through 2031, bearing interest at 6.40%	182,539
Capital Appreciation Bonds, maturing from 2032 through 2035, bearing interest at 6.45%	131,350
Term Bonds, maturing in 2032, bearing interest at 6.25%	117,100
Term Bonds, maturing from 2037 through 2040, bearing interest at 6.30%	270,000
Term Bonds, maturing from 2056 through 2059, bearing interest at 6.55%	429,000
Total Series B Bonds outstanding	1,129,989
Series C Bonds:	
Capital Appreciation Bonds, maturing in 2031, bearing interest at 6.50%	2,848
Term Bonds, maturing in 2029, bearing interest at 6.15%	110,000
Term Bonds, maturing in 2039, bearing interest at 6.25%	45,000
Term Bonds, maturing in 2044, bearing interest at 6.30%	143,000
Total Series C Bonds outstanding	300,848
Total bonds outstanding	3,033,586
Less bonds discount	(6,993)
Bonds payable — net	$ 3,026,593

Series A Bonds — The aggregate principal amount of the Series A Bonds issued amounted to approximately $1,589 million of which $1,544 million were issued as term bonds (the "Series A Term Bonds") and $45 million were issued as capital appreciation bonds ("the Series A Capital Appreciation Bonds"). Interest on the Series A Bonds accrues, or compounds (in the case of the Series A Capital Appreciation Bonds), from their date of delivery. Interest in the Series A Term Bonds are payable monthly on the first day of each month, commencing on March 1, 2008. Interest on the Series A Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Capital Appreciation Bonds on each January 1 and July 1, commencing on July 1, 2008 (Compounding Dates), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The Series A Bonds are subject to redemption at the option of the ERS from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series A Capital

Appreciation Bonds, the accreted amount) of the Series A Bonds, plus accrued interest to the redemption date, and without premium.

Series B Bonds — The aggregate principal amount of the Series B Bonds amounted to approximately $1,059 million of which $816 million were issued as term bonds (the "Series B Term Bonds") and $243 million were issued as capital appreciation bonds (the "Series B Capital Appreciation Bonds"). Interest on the Series B Bonds accrues, or compounds (in the case of the Series B Capital Appreciation Bonds), from their date of delivery. Interest in the Series B Term Bonds are payable monthly on the first day of each month, commencing on July 1, 2008. Interest on the Series B Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Series B Capital Appreciation Bonds on each January 1 and July 1, commencing on July 1, 2008 (Compounding Dates), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The Series B Bonds are subject to redemption at the option of the ERS from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series B Capital Appreciation Bonds, the accreted amount) of the Series B Bonds, plus accrued interest to the redemption date, and without premium.

Series C Bonds — The aggregate principal amount of the Series C Bonds amounted to approximately $300 million of which $298 million were issued as term bonds (the "Series C Term Bonds") and $2 million were issued as capital appreciation bonds (the "Series C Capital Appreciation Bonds"). Interest on the Series C Bonds accrues, or compounds (in the case of the Series C Capital Appreciation Bonds), from their date of delivery. Interest in the Series C Term Bonds are payable monthly on the first day of each month, commencing on August 1, 2008. Interest on the Series C Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Series C Capital Appreciation Bonds on each January 1 and July 1, commencing on July 1, 2009 (Compounding Dates), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The Series C Bonds are subject to redemption at the option of the ERS from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series C Capital Appreciation Bonds, the accreted amount) of the Series C Bonds, plus accrued interest to the redemption date, and without premium.

Debt service requirements in future years on pension funding bonds as of June 30, 2012 are as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2013	$ -	$ 166,519	$ 166,519
2014	-	166,519	166,519
2015	-	166,519	166,519
2016	-	166,519	166,519
2017	-	166,519	166,519
2018–2022	-	832,595	832,595
2023–2027	200,000	785,795	985,795
2028–2032	443,416	739,533	1,182,949
2033–2037	152,463	696,134	848,597
2038–2042	1,210,220	407,702	1,617,922
2043–2047	180,550	256,577	437,127
2048–2052	-	247,568	247,568
2053–2057	362,800	212,062	574,862
2058–2062	398,200	14,401	412,601
	2,947,649	$ 5,024,962	$ 7,972,611
Plus accreted interest	85,937		
Less unamortized discount	(6,993)		
Total	$ 3,026,593		

Pledge of Employer Contributions Pursuant to Security Agreement — The ERS entered into a Security Agreement with the Fiscal Agent for the benefit of the bondholders, pursuant to which the ERS pledged to the Fiscal Agent, and granted the Fiscal Agent a security interest in employer contributions made after January 31, 2008, which was the date of issuance of the first series of bonds, and the funds on deposit with the Fiscal Agent under the various accounts established under the Pension Funding Bond Resolution (the “Resolution”).

The Resolution and the Security Agreement constitute a contract between the ERS and the Fiscal Agent, on behalf of owners of the bonds. The pledge, covenants and agreements of the ERS set forth in the Resolution and the Security Agreement shall be for the equal benefit, protection and security of the owners of the bonds, regardless of time or times of their issuance or maturity, and shall be of equal rank, without preference, priority or distinction of any of the bonds over any other bond, except as expressly provided in or permitted by the Resolution. The pledge by the ERS of the pledged funds, which consist of all employer contributions that are made after January 31, 2008, which was the date of issuance of the first series of bonds, in accordance with the Act and amounts on deposit in the different accounts created pursuant to the Resolution for the benefits of the owners of the bonds, is irrevocable so long as any bonds are outstanding under the terms of the Resolution.

(p) Discretely Presented Component Units

Notes and appropriation bonds payable are those liabilities that are paid out of the component units’ own resources. These notes and appropriation bonds do not constitute a liability or debt of the primary government.

The outstanding balance of notes payable at June 30, 2012 is as follows (expressed in thousands):

Component Unit	Interest rates	Maturity Through	Balance at June 30, 2011	Additions	Reductions	Balance at June 30, 2012	Amounts Due Within One Year
Government Development Bank for Puerto Rico	1.59%–6.97%	2040	$5,271,072	$5,100,100	$5,020,808	$5,350,364	$ 570,515
Economic Development Bank for Puerto Rico	2.25%–7.23%	2031	607,817	170,716	52,392	726,141	41,800
Puerto Rico Ports Authority	Variable	2027	554,983	11,778	473,461	93,300	12,712
Puerto Rico Electric Power Authority	3.25%–4.375%	2023	200,501	599,995	226,465	574,031	555,438
Puerto Rico Trade and Export Company	4.51%–6.48%	2034	360,385	40,605	10,459	390,531	493
Puerto Rico Aqueduct and Sewer Authority	3.25%	2012	241,744	-	241,744	-	-
University of Puerto Rico	3.25%–5.50%	2014	2,008	2,426	830	3,604	1,336
Puerto Rico Industrial Development Company	5.10%–8.45%	2024	99,296	-	6,564	92,732	6,574
Puerto Rico Tourism Company	Variable	2013	3,042	8,528	-	11,570	11,570
State Insurance Fund Corporation	Variable	2028	283,643	-	3,992	279,651	4,489
Puerto Rico Metropolitan Bus Authority	2.62 %	2015	38,833	37,543	39,328	37,048	2,711
Agricultural Enterprises and Development Administration	4.54 %	2013	5,480	-	3,650	1,830	1,830
Total notes payable component units			$7,668,804	$5,971,691	$6,079,693	$7,560,802	$1,209,468

Debt service requirements on component units' notes payable with fixed maturities at June 30, 2012 were as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2013	$1,209,468	$ 295,443	$1,504,911
2014	444,062	284,866	728,928
2015	628,696	263,235	891,931
2016	712,522	235,946	948,468
2017	428,716	206,061	634,777
2018–2022	2,420,744	652,454	3,073,198
2023–2027	1,374,427	210,962	1,585,389
2028–2032	255,894	64,294	320,188
2033–2037	98,728	10,587	109,315
2038–2042	13,398	1,848	15,246
Discount	(25,853)	-	(25,853)
Total	$7,560,802	$2,225,696	$9,786,498

Commonwealth appropriation bonds payable outstanding at June 30, 2012 are as follows (expressed in thousands):

Component Unit	Interest rates	Maturity Through	Balance at June 30, 2011	Additions	Reductions	Balance at June 30, 2012	Amounts Due Within One Year
Puerto Rico Aqueduct and Sewer Authority	1.25%–6.15%	2031	$663,596	$397,799	$663,346	$398,049	$ -
Puerto Rico Tourism Company	3.10%–6.15%	2031	60,427	43,484	60,427	43,484	-
Land Authority of Puerto Rico	3.10%–6.50%	2031	76,715	47,739	69,276	55,178	-
Government Development Bank for Puerto Rico	3.10%–6.50%	2031	4,812	3,427	4,812	3,427	-
Puerto Rico Infrastructure Financing Authority	3.10%–6.50%	2031	4,956	3,607	4,956	3,607	-
Solid Waste Authority	3.10%–6.50%	2031	10,689	7,778	10,689	7,778	-
Total Commonwealth appropriation bonds — component units			$829,249	$503,834	$813,506	$511,523	$ -

Debt service requirements on component units' appropriation bonds payable with fixed maturities at June 30, 2012 were as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2013	$ -	$ 22,131	$ 22,131
2014	-	29,474	29,474
2015	-	29,324	29,324
2016	10,707	29,175	39,882
2017	8,686	28,865	37,551
2018–2022	47,509	124,896	172,405
2023–2027	59,987	127,907	187,894
2028–2032	398,196	59,507	457,703
2033–2037	-	5,698	5,698
Premium	7,247	-	7,247
Unaccreted	911	-	911
Deferred loss	(21,720)	-	(21,720)
Total	$511,523	$456,977	$968,500

Bonds payable outstanding at June 30, 2012 are as follows (expressed in thousands):

Component Unit	Interest Rates	Maturity Through	Balance at June 30, 2011	Additions	Reductions	Balance at June 30, 2012	Amount Due Within One Year
Government Development Bank for Puerto Rico	2.95%–6.56%	2039	$ 913,953	$ -	$ 306,187	$ 607,766	$ 33,880
Puerto Rico Infrastructure Financing Authority	Variable	2048	1,971,496	42	21,340	1,950,198	37,460
University of Puerto Rico	3%–5.75%	2036	643,734	-	29,285	614,449	31,790
Puerto Rico Municipal Finance Agency	3.80%–6.00%	2030	1,100,994	2,331	99,793	1,003,532	93,835
Puerto Rico Ports Authority	2.75%–6.5%	2028	44,987	678,681	46,877	676,791	340,000
Puerto Rico Aqueduct and Sewer Authority	3.35%–6.15%	2050	1,916,144	2,187,178	6,173	4,097,149	15,923
Puerto Rico Highways and Transportation Authority	2.25%–6.50%	2046	6,386,961	5,021	1,498,980	4,893,002	104,125
Puerto Rico Industrial Development Company	5.10%–6.75%	2029	237,504	435	12,668	225,271	28,570
Puerto Rico Convention Center District Authority	4.00%–5.00%	2036	456,395	-	9,933	446,462	9,470
Puerto Rico Electric Power Authority	2.00%–6.25%	2042	7,861,252	650,000	199,563	8,311,689	379,975
Total bonds payable-component units			$21,533,420	$3,523,688	$2,230,799	$22,826,309	$1,075,028

Debt service requirements on component units' bonds payable with fixed maturities at June 30, 2012 were as follows (expressed in thousands):

June 30,	Principal	Interest	Total
2013	$ 1,075,028	$ 1,086,661	$ 2,161,689
2014	546,186	1,076,410	1,622,596
2015	605,975	1,063,791	1,669,766
2016	858,425	1,043,906	1,902,331
2017	626,222	1,010,397	1,636,619
2018–2022	3,476,360	4,721,810	8,198,170
2023–2027	4,213,421	3,552,958	7,766,379
2028–2032	3,982,895	2,455,674	6,438,569
2033–2037	3,398,995	1,603,187	5,002,182
2038–2042	3,094,512	636,442	3,730,954
2043–2047	1,279,524	166,455	1,445,979
2048–2052	145,594	5,011	150,605
Discount, net	598,847	-	598,847
Unaccreted discount	(659,154)	-	(659,154)
Deferred loss	(416,521)	-	(416,521)
Total	$22,826,309	$18,422,702	$41,249,011

The table that follows represents debt service payments on two component units' variable-rate bonds and the net payments on associated hedging derivative instrument as of June 30, 2012. Although interest rates on variable rate debt and the current reference rate of hedging derivative instrument change over time, the calculations included in the table below are based on the assumption that the variable rate and the current reference rate of the hedging derivative instrument on June 30, 2012 will remain the same for their term.

Year Ending June 30,	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Hedging Derivative Instruments, Net	Total
2013	$ -	$ 10,126	$ 33,931	$ 44,057
2014	-	10,126	33,925	44,051
2015	-	10,126	33,925	44,051
2016	-	10,126	33,930	44,056
2017	-	10,126	33,930	44,056
2018–2022	104,525	48,242	155,854	308,621
2023–2027	111,630	42,010	137,378	291,018
2028–2032	453,635	27,004	102,244	582,883
2033–2037	-	14,279	65,599	79,878
2038–2042	-	14,279	63,034	77,313
2043–2047	700	14	17,638	18,352
Total	$ 670,490	$ 196,458	$ 711,388	$ 1,578,336

Several component units have defeased certain revenue bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old debts. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the statement of net assets (deficit). As of June 30, 2012, the following bonds are considered defeased (expressed in million):

	Amount Outstanding
Puerto Rico Electric Power Authority	$ 4,031
Puerto Rico Highways and Transportation Authority	2,702
Puerto Rico Municipal Finance Agency	328
Total	$ 7,061

16. GUARANTEED AND APPROPRIATION DEBT

(a) Guaranteed Debt

The Commonwealth may provide guarantees for the repayment of certain borrowings of component units to carry out designated projects. At June 30, 2012, the following component unit debts are guaranteed by the Commonwealth (expressed in thousands):

	Maximum Guarantee	Outstanding Balance
Blended component unit —		
Public Buildings Authority	$4,721,000	$4,285,324
Discretely presented component units:		
Government Development Bank for Puerto Rico	267,000	267,000
Puerto Rico Aqueduct and Sewer Authority	1,103,310	1,103,310
Port of the Americas Authority	250,000	219,349
Total	$6,341,310	$5,874,983

The Commonwealth has guaranteed the payments of rentals of its departments, agencies, and component units to PBA, a blended component unit, under various lease agreements executed pursuant to the law that created PBA. Such rental payments include the amounts required by PBA for the payment of principal and interest on the guaranteed debt as authorized by law. The rental commitment to cover principal and interest on the guaranteed debt (excluding premiums and deferred refunding losses) as of June 30, 2012 and for the next five years and thereafter follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Total
2013	$ 78,580	$ 198,571	$ 277,151
2014	72,595	198,478	271,073
2015	76,760	194,490	271,250
2016	82,000	190,244	272,244
2017	86,125	185,685	271,810
2018–2022	401,725	988,789	1,390,514
2023–2027	511,800	899,791	1,411,591
2028–2032	1,422,034	1,031,588	2,453,622
2033–2037	725,715	344,365	1,070,080
2038–2042	914,740	149,683	1,064,423
	4,372,074	$4,381,684	$8,753,758
Plus accreted value on bonds outstanding	19,938		
Plus unamortized premium, net	27,236		
Less deferred loss on bonds defeased	(133,924)		
Total	$4,285,324		

Rental income of PBA funds amounted to approximately $235 million during the year ended June 30, 2012, of which $108 million was used to cover debt service obligations.

Act 131 of July 2, 2012 increased the Commonwealth's guarantee on PBA's bonds from $4,325 million to $4,721 million.

Government Development Bank for Puerto Rico Remarketed Refunding Bonds — The Commonwealth guarantees the Remarketed Refunding Bonds, Series 1985, issued by GDB, a discretely presented component unit. The outstanding balance of these bonds amounted to $267 million at June 30, 2012. On August 1, 2008, GDB repurchased the $267 million outstanding of its adjustable refunding bonds as a result of significant increases in the interest rate of these auction rate bonds. On December 30, 2009, GDB remarketed and reissued these bonds at a fixed rate of 4.75%, maturing on December 1, 2015. These notes are subject to redemption at the option of GDB on or after June 1, 2013 at a redemption price of 101% through May 31, 2014 and 100% after June 1, 2014.

Puerto Rico Aqueduct and Sewer Authority (PRASA) — Act No. 45 of July 28, 1994 states that the Commonwealth guarantees the payment of principal and interest of all outstanding bonds at the date the law was enacted and of all future bond issues to refinance those outstanding bonds of PRASA. Act No. 140 of August 3, 2000 amended Act No. 45 to extend the Commonwealth guarantee to include the principal and interest payments of the Rural Development Serial Bonds and the loans under the State Revolving Fund Program (SRFP) outstanding at the effective date of Act No. 140, and of all future bonds and SRFP loans that may be issued through June 30, 2005. Act No. 386 of September 21, 2004 extended the Commonwealth guarantee to June 30, 2010. Act. No. 75 of July 12, 2010 amended section 1 of Act No. 45 of July 28, 1994 to extend the Commonwealth guarantee over the Rural Development and SRFP's borrowings to June 30, 2015.

United States Department of Agriculture (USDA) Rural Development Program assist PRASA in the financing and construction of aqueduct and sewer facilities in rural areas by purchasing revenue bonds from PRASA, the proceeds of which are used by PRASA to finance such projects. GDB provides interim financing for these projects through short-term lines of credit. On September 14, 2011, PRASA issued approximately $70.2 million of Series HH of USDA Rural Development Program Bonds, at a maximum interest of 4.25%, payable semiannually and maturing in semiannual installments through July 1, 2051. The funds raised by this issuance were used to partially repay the outstanding balance of USDA Rural Development Program lines of credit for construction projects from GDB. As of June 30, 2012, the USDA Rural Development Program Bonds consisted of twenty-five (25) separate series, issued from 1983 through 2011, bearing interest from 4.25% to 5% due in semiannual installments through 2051. The outstanding balance of the USDA Rural Development Program Serial Bonds as of June 30, 2012 was approximately $368.5 million. The USDA Rural Development Program Serial Bonds are guaranteed by the Commonwealth pursuant to Act No. 140 of August 3, 2000, as amended, and PRASA's net revenue is pledged toward the payment of debt service on the USDA Rural Development Program Bonds.

The Puerto Rico Water Pollution Control Revolving Fund and Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund (the Revolving Funds) were created by Act No. 44 of June 21, 1988 and Act No. 32 of July 7, 1997, respectively, of the Commonwealth. The Puerto Rico Water Pollution Control Revolving Fund is administered, pursuant to Act No. 44 and Act No. 9 of June 21, 1988 and June 18, 1970, respectively, as amended, by Puerto Rico Environmental Quality Board (EQB). The Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund is administered, pursuant to Act No. 5 of July 21, 1977, as amended, by Puerto Rico Department of Health (DOH).

Pursuant to these laws, EQB and DOH, on behalf of the Commonwealth, are authorized to enter into operating agreements and capitalization grant agreements with the U.S. Environmental Protection agency (EPA). Puerto Rico Infrastructure Financing Authority (PRIFA), a component unit of the

Commonwealth, PRASA, and GDB entered into a memorandum of understanding under which each party has agreed to assume specific responsibilities in connection with the operations of the Revolving Funds.

PRASA has entered into revolving loan agreements to finance certain capital improvements. As of June 30, 2012, PRASA had outstanding approximately $450 million under these loan agreements.

The loan agreements are evidenced by promissory notes, which bear interest at a 2% annual rate payable semiannually. Construction loans are required to be paid in full within 20 years of the project completion date. PRASA has pledged its net revenues on a basis subordinate in all respect to the PRASA's bonds outstanding. If PRASA's pledged revenues are not sufficient for the payment of principal and interest, the payments are guaranteed by the Commonwealth under the Act No. 45 of July 28, 1994, as amended, which obligates the Commonwealth to pay principal and interest on the notes.

On March 18, 2008, PRASA issued approximately $284.8 million of Revenue Refunding Bonds, Series A and B (the "2008 Revenue Refunding Bonds"), (guaranteed by the Commonwealth) to refund PRASA's outstanding Revenue Refunding Bonds, Series 1995 (guaranteed by the Commonwealth) in the amount of approximately $262.8 million. The 2008 Revenue Refunding Bonds bear interest at rates from 5.80% to 6.10% per annum with maturity dates ranging from July 1, 2021 to July 1, 2034. The outstanding balance of the 2008 Revenue Refunding Bonds at June 30, 2012 amounted $284.8 million.

At various times during fiscal years ended 2005 and 2006, the Port of the Americas Authority, a component unit of the Commonwealth, entered into bond purchase agreements with GDB, whereby GDB agreed to disburse to the Port of the Americas Authority from time to time certain bond principal advances up to a maximum aggregate principal amount of $70 million (Port of the Americas Authority 2005 Series A Bond), $40 million (Port of the Americas Authority 2005 Series B Bond), and $140 million (Port of the Americas Authority 2005 Series C Bond). The proceeds of the bonds were used to finance the cost of development and construction of the Port of the Americas. The aggregate unpaid principal balance of all outstanding bond principal advances shall be payable in full on January 1, 2015 and January 15, 2015. The principal amount may be paid with any of the following: (i) a long-term bond issuance once the projects are completed; (ii) other revenue of the Port of the Americas Authority; (iii) or legislative appropriations as established in Act No. 409 of September 22, 2004 (Act No. 409). Principal and interests payments are guaranteed by the Commonwealth by Act No. 409. As of June 30, 2012, the principal outstanding under those bond purchase agreements amounted to $219.3 million.

(b) Debt Supported by Appropriations and Sales and Use Taxes

At June 30, 2012, the outstanding principal balances of debt payable by Commonwealth appropriations and sales and use taxes (PFC bonds and notes payable, as described in Note 15(d), and notes payable to GDB, as described in Note 11) which are included in the individual financial statements of the following discretely presented component units, are as follows (expressed in thousands):

	PFC Bonds and Notes	Notes Payable to GDB and Others	Total
Puerto Rico Acqueduct and Sewer Authority	$411,229	$ -	$ 411,229
Special Communities Perpetual Trust	-	363,639	363,639
Puerto Rico Medical Service Administration	-	264,390	264,390
Puerto Rico Health Insurance Administration	-	171,080	171,080
Puerto Rico Convention Center District Authority	-	145,889	145,889
Solid Waste Authority	7,778	74,416	82,194
University of Puerto Rico	-	64,999	64,999
Land Authority of Puerto Rico	55,819	-	55,819
Puerto Rico Tourism Company	44,484	-	44,484
Puerto Rico Industrial Development Company	-	42,170	42,170
Puerto Rico Infrastructure Financing Authority	3,607	32,202	35,809
Company for the Integral Development of the “Península de Cantera”	-	23,103	23,103
University of Puerto Rico Comprehensive Cancer Center	-	19,866	19,866
National Parks Company of Puerto Rico	-	5,894	5,894
Puerto Rico Electric Power Authority	-	5,651	5,651
Government Development Bank	3,501	-	3,501
Institute of Puerto Rican Culture	-	2,515	2,515
Total	$526,418	$ 1,215,814	$ 1,742,232

Notes payable to GDB are reported in the statement of net assets (deficit) as “Due from (to) component units”.

(c) Other Guarantees

Mortgage Loan Insurance — The Puerto Rico Housing Finance Authority (the “Authority”), a component unit of GDB, provides mortgage credit insurance to low and moderate income families through its mortgage loan insurance program. The Commonwealth guarantees up to $75 million of the principal insured by the mortgage loan insurance program. As of June 30, 2012, the mortgage loan insurance program covered loans aggregating to approximately $482 million. Currently, the Commonwealth has not been called to make any direct payments pursuant to these guarantees.

17. CONDUIT DEBT OBLIGATIONS AND NO COMMITMENT DEBT

From time to time, certain of the Commonwealth's component units issue revenue bonds to provide financial assistance to private sector entities for the acquisition and construction of transportation, environmental, industrial, tourism, educational, and commercial facilities, deemed to be in the public interest and that are expected to provide benefits to Puerto Rico. These bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities is retained by the private sector entity served by the bond issuance. Neither the Commonwealth nor any political subdivision or component unit thereof is obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the basic financial statements of the issuing entities. As of June 30, 2012, conduit debt obligations consisted of the following bonds issued by component units (expressed in thousands):

Issuing Entity	Issued Since Inception to Date	Amount Outstanding
Discretely presented component units:		
Puerto Rico Ports Authority	$ 155,410	$ 155,410
Puerto Rico Highways and Transportation Authority	270,000	159,000
Puerto Rico Infrastructure Financing Authority	669,215	669,215
Government Development Bank for Puerto Rico	1,147,475	828,345
Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority	6,271,000	1,349,357
Total	$8,513,100	$3,161,327

(a) Puerto Rico Ports Authority (PRPA)

PRPA has issued $39,810,000 in Special Facility Revenue Bonds under the provisions of a trust agreement dated June 1, 1993, and $115,600,000 in Special Facility Revenue Bonds, under the provisions of a trust agreement dated May 1, 1996, between PRPA and a private bank. The proceeds from the sale of the bonds were used to finance the construction, acquisition of equipment, and improvement of certain facilities at the Luis Munoz Marin International Airport for the benefit of a major private airline. The property is owned by PRPA and leased to the private company. These bonds are limited obligations of PRPA, and are payable solely from and secured by a pledge of certain payments made under the Special Facilities Agreement with the private company and certain other moneys. Neither the credit of the Commonwealth nor that of any of its political subdivisions is pledged for the repayment of these bonds. In addition, the bonds are unconditionally guaranteed by the private company's parent company. Pursuant to the agreements between PRPA and the private company, the private company has agreed to pay amounts sufficient to cover the principal of and premium, if any, and interest on the bonds. The bonds are not collateralized by any property, but are payable solely from certain pledged payments by the private company under the agreement or by the private company's parent company under its unconditional guarantee. The outstanding balance of these bonds amounted to $155.4 million at June 30, 2012.

(b) Puerto Rico Highways and Transportation Authority (PRHTA)

In March 1992, PRHTA issued Special Facility Revenue Bonds, 1992 Series A, B and C for approximately $117 million for the construction of a toll bridge. The proceeds from the sale of these bonds were transferred by PRHTA to a private entity, Autopistas de Puerto Rico & Compañía, S.E. ("Autopistas"), pursuant to a signed concession agreement for the design, construction, operation and maintenance of the bridge. On October 30, 2003, PRHTA issued Special Facility Revenue Refunding Bonds, 2004 Series A, amounting to approximately $153 million for the purpose of refunding PRHTA's Special Facility Revenue Bonds, 1992 Series A, B, and C, which were issued to fund the construction of the bridge, and to pay the cost of issuance of the bonds. The proceeds from the sale of the bonds were transferred by PRHTA to Autopistas pursuant to a new loan agreement by and between Autopistas and PRHTA. The bonds shall be paid from the proceeds received by Autopistas from the operation of the bridge.

Under certain circumstances, the concession agreement may be terminated and PRHTA is then obligated to assume the Autopista's entire obligation to pay principal of, and interest on, the bonds outstanding, which pursuant to the signed agreement, will be paid from the net revenues of the use and operation of the bridge. PRHTA does not currently expect the concession agreement to terminate. The outstanding bonds (including accrued interest) at June 30, 2012 amounted to approximately $159 million.

(c) Government Development Bank for Puerto Rico (GDB)

In December 2003, GDB, through its Housing Finance Authority, issued $663 million in Capital Fund Program Bonds Series 2003 to lend the proceeds thereof to the Public Housing Administration in its financing of improvements to various public low and moderate income housing projects. The Capital Fund Program Bonds Series 2003 are limited obligations of the Housing Finance Authority, which will be paid solely from an annual allocation of public housing capital funds when received from the U.S. Department of Housing and Urban Development and other funds available under the bond indenture. Accordingly, these bonds are considered no commitment debt and are excluded, along with the related assets held in trust, from the accompanying basic financial statements. The outstanding balance of these bonds amounted to $496.5 million at June 30, 2012.

On August 1, 2008, the Housing Finance Authority issued the Capital Fund Modernization Program Subordinate Bonds amounting to $384,475,000 and the Housing Revenue Bonds amounting to $100,000,000. The proceeds from the issuance were mainly used to finance a loan to a limited liability company and pay the costs of issuance. The $384,475,000 bonds are limited obligations of the Housing Finance Authority, payable primarily by a pledge and assignment of federal housing assistance payments made available by the U.S. Department of Housing and Urban Development, with an outstanding balance of $331.9 million at June 30, 2012. The $100,000,000 bonds were also limited obligations of the Housing Finance Authority, payable from amounts deposited in escrow accounts with a trustee and the proceeds of a loan to be made by the Housing Finance Authority to the limited liability company using moneys received as a grant from the Department of Housing of Puerto Rico. Payment of principal of the Housing Revenue Bonds was also secured by an irrevocable standby letter of credit issued by GDB. The Housing Revenue Bonds were paid-off on September 30, 2011.

(d) Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority (AFICA)

AFICA's revenue bonds are special and limited obligations of AFICA and, except to the extent payable from bond proceeds and investments thereof, will be payable solely from and secured by a pledge and assignment of the amounts payable under the loan agreements between AFICA and the borrowers. Furthermore, payment of principal and interest on the revenue bonds is unconditionally guaranteed by the borrowers, their parent companies, or letters of credit generally issued by major U.S. banks or U.S. branches of international banks.

The revenue bonds are considered conduit debt and do not constitute a debt or a pledge of the good faith and credit of AFICA or the Commonwealth or any political subdivision thereof.

In connection with the issuance of revenue bonds, AFICA enters into trust agreements, whereby AFICA assigns and pledges to the trustees, for the benefit of the holders of the revenue bonds, (1) all amounts receivable by AFICA in repayment of the amounts due under the loan agreements; (2) any rights, title, and interest of AFICA in the proceeds derived from the issuance of the revenue bonds and of any securities in which moneys in any fund or account created by the trust agreements or loan agreements are invested and the proceeds derived therefrom; and (3) AFICA's rights, title, and interest in and to the loan agreements, subject to AFICA's retention of certain rights, including the right to collect moneys payable to AFICA, which are not received with respect to repayment of the loans.

Since inception and up to June 30, 2012, AFICA has issued revenue bonds aggregating to $6,271 million, $1,349 million of which was outstanding as of June 30, 2012. Of the revenue bonds outstanding at June 30, 2012, $713 million represent industrial and commercial revenue bonds; $104 million, tourism related revenue bonds; $183 million, hospital revenue bonds; and $349 million, educational revenue bonds. Pursuant to the loan agreements covering the issuance of these bonds, corporations and partnerships operating in Puerto Rico borrowed the proceeds from the bond issuances by AFICA.

(e) Puerto Rico Infrastructure Financing Authority (PRIFA)

In December 2011, PRIFA issued $669,215,000 Special Revenue Bonds, pursuant to a Loan and a Trust Agreement dated December 1, 2011, between PRIFA and the Puerto Rico Ports Authority ("PRPA"), another component unit of the Commonwealth. The proceeds from the bonds were lent to PRPA to refinance certain obligations, acquire real estate for airport and seaport facilities, provide working capital, finance certain operating and capital costs, and finance the cost of issuing the bonds. These bonds are limited obligations of PRIFA and are payable solely from and secured by the revenues to be received under the Loan and Trust Agreement. The PRPA shall make loan payments sufficient to cover the payment of principal and interest due on the bonds. The bonds are also secured by two irrevocable, transferable direct pay letters of credit issued by GDB. Upon repayment of the bonds, ownership of the acquired facilities is retained by the PRPA. PRIFA is not obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the basic financial statements of the issuing entity. The total amount of $669,215,000 was outstanding as of June 30, 2012.

18. RISK MANAGEMENT

The risk management policies of the primary government of the Commonwealth are addressed on Note 1(ab).

The following describes the risk management programs separately administered by certain discretely presented component units:

(a) GDB

Since one of GDB's principal functions is to provide financing to the Commonwealth and its instrumentalities, GDB's loan portfolio includes loans to various departments and agencies of the Commonwealth, to various public corporations (component units), and to municipalities, which represent a significant portion of GDB's government-wide assets.

Loans to the Commonwealth and its instrumentalities are expected to be collected from legislative appropriations from, proceeds from future bond issuances of, or revenues generated by the Commonwealth and/or its component units and, to a lesser extent, from loans provided by sources other than GDB, federal grants, and the sale of assets of such component units, if necessary. Accordingly, the collectability of these loans may be affected by budgetary constraints, the fiscal situation and the credit rating of the Commonwealth and its component units, and their ability to generate sufficient funds from taxes, charges, and/or bond issuances. Continuance of and/or significant negative changes in these factors may have an adverse impact on GDB's financial condition, liquidity, funding sources, and results of operations. Loans to municipalities are expected to be repaid principally from a portion of property tax assessments or municipal sales tax of each municipality.

Notwithstanding the aforementioned uncertainties and risks, the Commonwealth and GDB have adopted and continue to adopt measures to mitigate these risks and uncertainties. As part of its role of providing financing to the Commonwealth and its instrumentalities to further the economic development of Puerto Rico, and as part of its risk management activities, GDB is renegotiating and/or restructuring payment terms of the loans to certain governmental entities. Some of the renegotiations/restructurings extend the period for principal repayment but provide for repayment of the contractual interest in accordance with the original terms. Certain loans whose repayment source was originally from COFINA and from future issuances of Commonwealth's general obligation bonds are currently being repaid with annual legislative appropriations based on payment schedules proposed by GDB, which are based on a period of amortization of 30 years, at contractual interest rates. GDB will annually submit to OMB, to be included in the Commonwealth's budget for legislative approval in each subsequent fiscal year, an amount established in the payment schedules with the terms stated above. GDB expects that future appropriations will be approved by the Legislature to comply with such schedules. However, there can be no assurance that the director of the OMB will include an amount for loan repayments in the Commonwealth' budget, and that the Legislature will appropriate sufficient funds in the future to cover all amounts due to GDB on these loans.

GDB lends funds to public corporations for capital improvements and operating needs. The loans for capital improvements generally are construction loans and are generally repaid from the proceeds of future bond issuances of the respective public corporations. The amount of outstanding loans from GDB to the public corporations fluctuates annually, depending upon the capital program needs of the public corporations, the timing and level of their capital expenditures, and their ability to gain access to the long-term capital markets. The participation of certain of these public entities in the

bond market has been delayed waiting for the credit rating of such entities to improve or for more favorable market conditions.

A particular attention is being placed on loans granted by GDB to the Puerto Rico Highways and Transportation Authority (PRHTA). As of June 30, 2012, GDB has extended various credit facilities to PRHTA for, among other, capital improvement programs, working capital, debt service and collateral posting requirements. The outstanding balance of such facilities amounts to $1.9 billion, including accrued interest of $30.5 million, which represent 12% and 76% of GDB's total government-wide assets and net assets, respectively, at June 30, 2012.

GDB, in its ordinary course of business, provides interim lines of credit to public corporations like PRHTA. These lines of credit have historically been repaid from bond issuances of each public corporation, once they regain or have access to the capital markets. No public corporation has ever defaulted on its obligations with GDB.

PRHTA has reported net operating losses during each of the three fiscal years in the period ended June 30, 2012, and, as a result, GDB has been partially financing its operations through credit facilities. In fiscal year 2010, PRHTA entered into a fiscal oversight agreement with GDB, whereby GDB, among other things, imposes conditions on the extensions of credit to PRHTA and continually monitors its finances. PRHTA expects to repay the credit facilities due to GDB with proceeds from the issuance of bonds within the next two fiscal years. On December 13, 2012, Moody's Investor Service downgraded PRHTA's transportation revenue bonds from Baa1 to Baa3, PRHTA's highway revenue bonds from A3 to Baa2, and PRHTA's subordinate transportation revenue bonds from Baa2 to Ba1.

Managements of PRHTA and GDB are working with various alternatives for PRHTA to gain access to the bond capital market, including, among other, a new trust indenture, revenue increasing measures, and expense reduction measures. If such alternatives are not materialized, PRHTA could default on its credit facilities with GDB, which may have a material adverse effect on the financial condition, operating results and liquidity of GDB. GDB's management, however, believes that in such case alternatives are not materialized, the Commonwealth would provide financial support to PRHTA in order to repay its outstanding borrowings with GDB.

On June 25, 2013, the Legislature of the Commonwealth enacted Act No. 30 and Act No. 31 to raise additional annual revenues for PRHTA to repay its outstanding loans with GDB. The additional annual revenues consist of (1) transfer to PRHTA of vehicle license fee revenues currently received by the Commonwealth's Treasury Department, which amount to approximately $62.5 million; (2) increase in the petroleum products tax from $3.00 per barrel to $9.25 per barrel (to be adjusted for inflation, every four years beginning in 2017, based on the accumulated compounded yearly increase in the USA CPI Index plus a margin of 1.5%), which are estimated to generate approximately $189 million; (3) transfer to PRHTA of the first $20 million in annual cigarette tax revenues currently collected by the Commonwealth's Treasury Department.

As part of its risk management activities and as a condition to provide financing support to certain public corporations, GDB has entered into fiscal oversight agreements with certain public corporations. The agreements require the public corporations, among other, to implement a comprehensive expense reduction program, including certain fiscal oversight controls, subject to laws and existing agreements of the public corporations, designed to minimize future tariff increases to households and the private sector, and to protect and improve the credit rating of the public corporations, so that the public corporations may obtain adequate financing to fund its capital expenditure requirements and to operate its infrastructure in an efficient and reliable manner and in

compliance with applicable laws and regulations. GDB's agreement to provide current financing and any future financing is expressly conditioned upon the public corporations' compliance with the covenants established in the fiscal oversight agreement and GDB's right to monitor and enforce such compliance. These agreements will be in effect until the public corporations have regained a level of financial stability and are able to secure long-term financing that will result in the continued stability of the public corporations' operations and financial condition. As of June 30, 2012, GDB's management determined that all public corporations and agencies have complied with the material terms and conditions of their respective agreements.

On March 9, 2009, the Legislature of the Commonwealth enacted Act No. 7, which among other, created an integrated plan for the Commonwealth's fiscal stabilization that includes: (i) operating expense-reduction measures, including various workforce reduction initiatives and a temporary halt of salary increases and other economic benefits included in certain laws and collective bargaining agreements; (ii) tax revenue enforcement measures; (iii) a combination of permanent and temporary tax increases, and (iv) other financial measures. Although the Commonwealth is using its best efforts to maximize revenues and reduce expenditures, there can be no assurance that its future revenues will be greater than its expenditures.

Based on previous experience and recent developments, GDB's management believes that the carrying amount of most of the loans to the public sector will be collected (including interest at the contractual interest rate).

Other risk management policies of GDB involve its mortgage and loans servicing and insurance activities. Certain loan portfolios of the Housing Finance Authority, a blended component unit of GDB, are administered by private servicers who are required to maintain an error and omissions insurance policy. The Housing Finance Authority has a program to manage the risk of loss on its mortgage loan lending and insurance activities.

(b) UPR

UPR is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Through January 1993, UPR was insured under claims-made insurance policies with respect to medical malpractice risks for $250,000 per occurrence up to an annual aggregate of $500,000. Subsequent to such date, UPR was unable to obtain insurance at a cost it considered to be economically justifiable; consequently, UPR is now self-insured for such risks. Under Act No. 98 of August 24, 1994, the responsibility of UPR is limited to a maximum amount of $75,000 per person, or $150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Self-insured risk liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The process used in computing claims liabilities does not necessarily is an exact amount because actual claims liabilities depend upon such complex factors as inflation, changes in legal doctrines, and damage awards. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Changes in the claims liability amount for medical malpractice in fiscal years 2012 and 2011 were as follows (expressed in thousands):

	2012	2011
Claims payable — July 1	$ 12,254	$ 11,961
Incurred claims and changes in estimates	894	1,910
Payments for claims and adjustments expenses	(1,192)	(1,617)
Claims payable — June 30	$ 11,956	$ 12,254

In addition, the UPR is a defendant in several lawsuits other than medical malpractice arising out of the normal course of business. Management has recorded an accrual of $10.4 million and $11.6 million as of June 30, 2012 and 2011, respectively, to cover claims and lawsuits that may be assessed against the UPR. The UPR continues to carry commercial insurance for these risks of loss.

These claims payable are presented as a component of accounts payable and accrued liabilities in the accompanying statement of net assets (deficit).

UPR continues to carry commercial insurance for all other risks of loss.

(c) PREPA

PREPA purchases commercial insurance covering casualty, theft, tort claims, natural disaster and other claims covering all risk property (excluding transmission and distribution lines), boiler and machinery, and public liability. In addition, PREPA has a self-insured fund to pay cost of repairing, replacing on reconstructing any property damaged or destroyed from, or extraordinary expenses incurred as a result of a cause, which is not covered by insurance required under the 1974 agreement.

PREPA has a cost plus health insurance program covering substantially all employees. PREPA contracted an administrator for the processing, approval, and payment of claims plus an administrative fee. The accrual for employees' health plan includes the liability for claims processed and an estimate for claims incurred but not reported.

Changes in the balances of the health insurance program and other self-insurance risks during fiscal years 2012 and 2011 were as follows (expressed in thousands):

	2012	2011
Claims payable — July 1	$ 7,167	$ 5,597
Incurred claims	87,434	95,921
Claim payments	(87,413)	(94,351)
Claims payable — June 30	$ 7,188	$ 7,167

These claims payable are presented as a component of accounts payable and accrued liabilities in the accompanying statement of net assets (deficit).

(d) PRASA

PRASA has acquired commercial insurance to mitigate its exposure to certain losses involving real and personal property (including windstorm, flood and earthquake damages) and comprehensive general and automobile claims. PRASA also has an Owner Controlled Insurance Program (OCIP) under which commercial general liability, excess general liability, builder's risk, and contractors pollution liability coverage are procured or provided on a project "wrap up" basis for contractors and subcontractors of any tier, who have been properly enrolled, while performing operations at the applicable project site. Each commercial insurance policy maintained by PRASA contains specific policy limits and deductibles. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(e) PRHTA

PRHTA carries commercial insurance to cover casualty, theft, claims and other losses. PRHTA has not settled any claims in excess of its insurance coverage for any of the past three years.

(f) PRHIA

PRHIA is responsible for implementing, administering and negotiating a health insurance system, through contracts with insurance underwriters, to provide quality medical and hospital care to the Commonwealth residents regardless of their financial condition and capacity to pay. PRHIA pays a monthly premium to such insurance underwriters based on a contracted premium and the number of members subscribed in the health plan. Funds to pay for such premiums are requested from the Commonwealth, net of funds available for such purposes from all other sources.

Under the provisions of Act No. 105 of July 19, 2002, that amends Act No. 72 of 1993, PRHIA was authorized to negotiate directly with health providers under a pilot program. PRHIA has, since then, entered into different direct contract to cover the insured population of different regions and municipalities. Since November 1, 2006 through September 1, 2010, PRHIA directly contracted providers that served approximately 190,000 lives from the metro-north region. At June 30, 2011, PRHIA has direct contracting projects with the municipalities of Vieques and Guaynabo, and effective October 1, 2011, the projects were expanded to cover the west, the metro north, the north, the San Juan, the northeast and the virtual regions under a new arrangement with a new insurance underwriter as third party administrator. In addition, PRHIA implemented certain cost containment strategies to control costs, such as establishing a co-payment that applies for the unjustified use of emergency rooms, detection and control of prescription drug overuse, implementation of disease

management program for respiratory conditions, modification of provider fees and better coordination of benefits for the population having other medical insurance.

PRHIA establishes a liability to cover for the estimated amount to be paid to providers based on experience and accumulated statistical data under one of the direct contracting pilot projects. The estimates of medical claims incurred but not reported and other medical expense payments is developed using actuarial methods and assumptions based upon payment patterns, inflation of medical costs, historical developments and other relevant factors. PRHIA agrees with health care organizations certain medical care services provided to the beneficiaries. The following table provides a reconciliation of the beginning and ending liability for incurred but unpaid medical and benefit adjustment expenses for the two most recent fiscal years (expressed in thousands):

	2012	2011
Liability for incurred but unpaid benefits and benefit adjustment expenses at July 1	$ 35,454	$ 59,453
Total incurred benefits	775,761	96,783
Total benefit payments	(598,042)	(120,782)
Liability for incurred but unpaid benefits and benefit adjustment expenses at June 30	$ 213,173	$ 35,454

The liability for incurred but unpaid benefits and benefit adjustment expenses is reported as liability for automobile accident insurance, workmen compensation and medical claims in the accompanying statement of net assets (deficit).

(g) SIFC

SIFC provides workers' compensation insurance to public and private employees. This insurance covers workers against injuries, disability, or death caused by work or employment related accidents, or by illness suffered as a consequence of their employment. SIFC establishes liabilities for incurred but unpaid benefits and benefit adjustment expenses based on the ultimate cost of settling the benefits. The liability includes estimates for cases reported that have not been adjudged and cases incurred but not reported. The following table provides a reconciliation of the beginning and ending liability for incurred but unpaid benefits and benefit adjustment expenses for the two most recent fiscal years (expressed in thousands):

	2012	2011
Liability for incurred but unpaid benefits and benefit adjustment expenses at July 1	$ 784,018	$ 778,243
Total incurred benefits	526,610	525,568
Total benefit payments	(490,616)	(519,793)
Liability for incurred but unpaid benefits and benefit adjustment expenses at June 30	$ 820,012	$ 784,018

The liability for incurred but unpaid benefits and benefit adjustment expenses is reported as liability for automobile accident insurance, workmen compensation and medical claims in the accompanying statement of net assets (deficit).

The liability for incurred but unpaid benefits and benefit adjustment expenses is based on historical claims experience data, assumptions and projections as to future events, including claims frequency, severity, persistency, and inflationary trends determined by an independent actuarial study. This liability has been discounted at 3.66% in 2012. SIFC's management believes that discounting such liability results in a better matching of costs and revenues since compensation benefits have a long payment cycle. The assumptions used in estimating and establishing the liability are reviewed annually based on current circumstances and trends.

SIFC's management believes that the liability for incurred but unpaid benefits and benefit adjustment expenses, actuarially determined at June 30, 2012, is a reasonable estimate of the ultimate net cost of settling benefits and benefit expenses incurred. Because actual benefit costs depend upon such factors as duration of worker disability, medical cost trends, occupational disease, inflation, and other social and economic factors, the process used in computing the ultimate cost of settling benefits and expenses for administering benefits is necessarily based on estimates. The amount ultimately paid may be above or below such estimates. Adjustments resulting from changes in estimates of these liabilities are charged or credited to operations in the period in which they occur.

(h) AACA

AACA operates a system of compulsory insurance for vehicles licensed to be used on public roads and highways in Puerto Rico. This insurance covers bodily injuries and compensation for beneficiaries (and their dependents) caused by automobile accidents. The annual premium is $35 per motor vehicle.

The following table provides a reconciliation of the beginning and ending liability for the future benefits for the two most recent fiscal years, presented based on undiscounted method (expressed in thousands):

	2012	2011
Liability for incurred but unpaid benefits and benefit adjustment expenses at beginning of year	$ 166,596	$ 165,927
Total incurred benefits	56,526	63,180
Total benefit payments	(65,982)	(62,511)
Liability for incurred but unpaid benefits and benefit adjustment expenses at end of year	$ 157,140	$ 166,596

The liability for future benefits is reported as liability for automobile accident insurance, workmen compensation and medical claims in the accompanying statement of net assets (deficit). The liability covers the estimated cost of all future benefits related to claims incurred but not reported during the year. Future benefits include death and funeral, disability and accident and health benefits. AACA has recorded this liability, including administrative expenses for claim processing, based on the results of an actuarial report prepared by an independent actuary.

Changes in the ultimate liabilities for benefit payments may be required as information develops, which varies from experience, provides additional data, or, in some cases, augments data, which previously were not considered sufficient for use in determining the claim liabilities.

(i) PRIFA

PRIFA is responsible for assuring that its property is properly insured. Annually, PRIFA compiles the information of all property owned and its respective replacement value and purchases its property and casualty insurance policies. Insurance coverage for fiscal year 2012 remained similar to those of prior years. For the last three years, insurance settlements have not exceeded the amount of coverage.

19. COMMITMENTS AND CONTINGENCIES

Primary Government — The Commonwealth is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Act No. 104 of June 25, 1955, as amended, persons are authorized to sue the Commonwealth only for causes of actions set forth in said Act to a maximum amount of $75,000 or $150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Under certain circumstances, as provided in Act No. 9 of November 26, 1975, as amended, the Commonwealth may provide its officers and employees with legal representation, as well as assume the payment of any judgment that may be entered against them. There is no limitation on the payment of such judgments.

With respect to pending and threatened litigation, excluding the litigation mentioned in the following two paragraphs, the Commonwealth reported approximately $421 million as an amount to cover for awarded and anticipated unfavorable judgments at June 30, 2012. This amount was included as other long-term liabilities in the accompanying statement of net assets (deficit), and represents the amount estimated as probable liability or a liability with a fixed or expected due date that will require future available financial resources for this payment. The amounts claimed exceed $12 billion; however, the ultimate liability cannot be presently determined. It is the opinion of management that the claims are excessive and exaggerated. Management believes that the ultimate liability in excess of amounts provided, if any, would not be significant.

The Commonwealth is a defendant in two parallel lawsuits, one filed in the state court and the other at the federal court. The plaintiffs are various primary healthcare centers seeking to recover from the Commonwealth approximately $500 million of Medicaid funds retained by the Department of Health of the Commonwealth since 1997. In February 2005, United States Court of Appeals for the First Circuit determined that the Commonwealth must return the funds withheld because of noncompliance with a federal law. As of June 30, 2012, the Commonwealth accrued $440 million for this legal contingency.

The Commonwealth is a defendant in a class action presented by parents of special education students in the areas of education and healthcare. In October 2006, the State Court of Appeals decided in favor of the parents' request to include damage claims pursuant to the same class action case although not as a remedy in the class action per se. The court now may award damages to the members of the class action and to do so it may look at the claims by dividing them into groups or consider each case individually. This will require that the parents prove the damages suffered on an individual basis. The Commonwealth plans to defend vigorously each individual case. As of June 30, 2012, the Commonwealth accrued $650 million for this legal contingency.

On December 21, 2012, the Federal Government, through the US Department of Justice, filed a lawsuit in order to demand from the Commonwealth of Puerto Rico and its Police Department, compliance with the action and remediation plan submitted on September 8, 2011 by the Civil Rights Division of the US Department of Justice pursuant an investigation which revealed a pattern of civil rights violations by the Police Department. According to this investigation and resulting report, the pattern or practice of illegal activity is the product of an ongoing failure by the Commonwealth and its Police Department to provide officers with the necessary guidance, training, and tools to engage in constitutional and effective law

enforcement. The Federal Government is seeking declaratory and equitable relief to eliminate this unlawful pattern by asking the Commonwealth and its Police Department to adopt and implement policies and procedures in the areas of recruitment, hiring, promotions, policies, training, supervision, investigation, discipline, and prevent the police officers of depriving persons of rights, privileges, or immunities secured and protected by the Constitution or laws of the United States. Although the claim does not include damages, the action and remediation plan proposed would require an investment of approximately $600 million, which are expected be incurred over a period of 10 years, starting with fiscal year 2014. During the first year, the Commonwealth is expected to allocate approximately $20 million while the Federal government would contribute $9 million. The Secretary of Justice of the Commonwealth is still negotiating the final determinations of the measures to be implemented by the Police Department in terms of final costs and timeframe. On July 17, 2013, a final definitive agreement was reached between the US Department of Justice and the Commonwealth, which was filed with the Court. Management expects the Court to dismiss the claim, but retain jurisdiction to assure compliance through a Technical Compliance Advisor to be appointed. No provision for any liability is required at this time under this remediation plan. Expenditures and related liabilities will be recognized as costs during the execution of the remediation plan are incurred beginning in fiscal year 2014.

As has been the case with each comprehensive pension reform measure enacted in the United States, certain public employees have brought lawsuit challenging the constitutionality of pension reform in Puerto Rico. The main case filed against Act No 3 of April 4, 2013 was initiated on May 14, 2013 by sixty-eight (68) employees of the Office of the Comptroller of the Commonwealth, who filed a Complaint on May 8, 2013, in the Commonwealth's Court of First Instance in San Juan alleging that Act No. 3 is unconstitutional as applied to them. Subsequent to this filing, employees of other agencies have filed similar lawsuits. These complaints allege that plaintiffs have certain acquired rights under Act No. 447 of May 15, 1951, as amended, and that Act No. 3 violates the Contract Clause of Act No. 447 because, although the solvency of the ERS is a compelling state interest, the Commonwealth has not shown that the enactment of the law was necessary to promote that interest, nor that there were not less onerous means to advance or achieve that interest. On June 24, 2013, the Puerto Rico Supreme Court ratified the constitutionality of Act No. 3.

In connection with the termination of an interest rate exchange agreement (swap) with a notional amount of $218 million by COFINA relating to its Sales Tax Revenue Bonds, Series 2007A, COFINA made a termination payment to the counterparty in November 2008. At June 30, 2012, the counterparty has asserted that it was entitled to a termination payment in excess of that paid by COFINA in November 2008, plus interest at a default rate, amounting to approximately $64 million. The counterparty alleges that the date of the termination notice used by COFINA for purposes of calculating the termination payment was not in accordance with the agreement. In addition, the counterparty alleges that the termination payment should have been based on the value of replacement swaps entered into by COFINA, which actually have different credit terms than those contained in the terminated swap. COFINA has accrued $3.4 million in connection with this matter at June 30, 2012. This amount is presented as other long term liabilities in the accompanying statement of net assets (deficit). The amount claimed in excess of that accrued at June 30, 2012 is approximately $60.6 million. While the counterparty may assert continued default interest since the claim date, an amount of possible loss in excess of the $3.4 million accrued, if any, cannot be reasonably estimated. COFINA intends to contest this matter vigorously. Among other things, it is the opinion of COFINA that, even assuming that the counterparty's allegations regarding improper termination are correct, the amounts claimed by the counterparty are not correct. Accordingly, management does not expect that the ultimate costs to resolve this matter will have a material adverse effect on COFINA's financial position or results of operations.

During 2012, PBA identified asbestos in its central offices at Minillas. Although asbestos removal costs of approximately $2 million have been accrued by PBA, a series of lawsuits have been filed by certain

government employees who had worked in the past at such location, claiming damages. Preliminary hearings and discovery proceedings are at a relative early stage, therefore no provision for any liability that may result upon adjudication of these lawsuits has been recognized by the Commonwealth.

The Commonwealth receives financial assistance from the federal government in the form of grants and entitlements. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal laws and regulations, including the expenditure of resources for eligible purposes. Substantially, all grants are subject to audit under Circular A-133 of the Office of Management and Budget of the United States of America (OMB Circular A-133), all of which are performed at the individual department or agency level. Disallowance as a result of these audits may become liabilities of the Commonwealth. At June 30, 2012, based on an evaluation of pending federal disallowances, the Commonwealth has recorded approximately $107 million as other long-term liabilities in the accompanying statement of net assets (deficit). Expenditures that are still subject to audit could be disallowed but management believes any such future disallowances would not be material to the basic financial statements.

Construction commitments at June 30, 2012, entered by PBA, amounted to approximately $72.7 million. In addition, the Commonwealth’s construction commitments for public housing facilities amounted to approximately $212 million at June 30, 2012.

On November 23, 1998, a global settlement agreement (the “Global Agreement”) was entered into by and between certain tobacco companies and certain states, territories, and other jurisdictions of the United States of America, including the Commonwealth. The Global Agreement calls for annual payments through the year 2025, which will vary due to inflationary and volume adjustments. Estimated payments to be received under the Global Agreement through the year ending June 30, 2025 amount to approximately $1.2 billion. After 2025, the tobacco companies shall continue making contributions in perpetuity. Pursuant to Act No. 173 of July 30, 1999, which created the Children’s Trust (a blended component unit), the Commonwealth assigned and transferred to the Children’s Trust the contributions that the Commonwealth is entitled to receive under the Global Agreement. Payments received under the Global Agreement and recognized as revenue during the year ended June 30, 2012, amounted to approximately $72 million. All of the revenue to be received under the Global Agreement and investment earnings on certain accounts under bond indentures are pledged as collateral for the Tobacco Settlement Asset-Backed Bonds, Series 2002, 2005, and 2008. At June 30, 2012, the approximate amount of the pledge is $1.4 billion, representing the approximate remaining principal and interest of the aforementioned bond issuances, which are committed through May 15, 2057. Accordingly, until May 15, 2057, such revenues are not available for other purposes.

At June 30, 2012, the Children’s Trust had approved commitments to provide assistance to several entities through forty-five contracts with balances amounting to approximately $27.8 million.

Discretely Presented Component Units — in the normal course of their operations, various component units are subject to guarantees, actions brought by third parties seeking damages or entering into commitments. Such actions are disclosed in the separately issued reports of the component units, some of which are summarized below:

(a) GDB

At June 30, 2012, GDB has financial guarantees for the public sector for approximately $52 million and for the private sector of approximately $474 million. In addition, at June 30, 2012, standby letters of credit to the public sector were approximately $776 million. Commitments to extend credit to the public sector were approximately $2.1 billion.

On September 22, 2011, Autopistas Metropolitanas de Puerto Rico, LLC (Metropistas) and PRHTA entered into a concession agreement (the "Concession Agreement") for the administration of the toll roads PR-22 and PR-5, for which PRHTA received in exchange a lump-sum payment of $1.1 billion and a commitment to make immediate improvements to the toll roads amounting to $56 million and to comply with world-class operating standards which may require investing more than $600 million over the life of the concession. In connection with the closing of the Concession Agreement, GDB executed a payment guarantee in favor of Metropistas pursuant to which GDB acts as guarantor of any Termination Damages, as defined in the Concession Agreement, due and payable in cash by the PRHTA under the Concession Agreement. The amount of Termination Damages consists, among other components, of the fair market value of Metropistas' interest in the toll roads. At the same time, in connection with the payment guarantee, GDB and PRHTA also entered into a Reimbursement Agreement whereby the PRHTA agreed to reimburse GDB for any amounts paid under the guarantee.

On August 18, 2002, the Legislature approved Act No. 198, which creates the Cooperative Development Investment Fund. The purpose of this fund is to promote the development of cooperative entities. This fund will be capitalized through contributions to be provided by GDB up to $25 million to be matched by cooperative entities. As of June 30, 2012, GDB has contributed $17.9 million to the Cooperative Development Investment Fund, $969,000 of which were contributed during the year ended June 30, 2012.

GDB's Development Fund has entered into an agreement with the Economic Development Bank for Puerto Rico (EDB) whereby the Development Fund would guarantee a portion of loans granted by EDB under a government program named "The Key for Your Business" (the "Program"). Under the agreement, the Development Fund would assign $15 million of its capital for the Program. The Development Fund guarantees one-third of the outstanding principal balance of each loan plus accrued interest and certain other charges. The Development Fund charges one percent of the loan amount as guarantee fee and no loan can exceed $50,000. At June 30, 2012, the outstanding balance of loans guaranteed by the Development fund amounted to approximately $9.5 million, and the allowance for losses on guarantees amounted to approximately $1 million.

The Housing Finance Authority, a blended component unit of GDB, acts as servicer for a number of mortgage loans owned by other investors. The servicing is generally subcontracted to a third party. As of June 30, 2012, the principal balance of the mortgage loans serviced for others is approximately as follows (expressed in thousands):

Puerto Rico Community Development Fund I	$ 42,750
R-G Mortgage, Inc. or its successor	1,380
Office for the Administration of the Assets of the Urban Renovation and Housing Corporation or its successor without guaranteed mortgage loan payments	32
Total	$ 44,162

GDB and certain of its component units are defendants in several lawsuits arising out of the normal course of business. Management, based on advice of legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings will not have a material adverse effect on the financial position and results of operations of GDB or its component units.

(b) PRHTA

PRHTA is a defendant or co-defendant in various lawsuits for alleged damages in cases principally related to construction projects. These are generally either fully or partially covered by insurance. The contactors are required, under the terms of the construction agreements to carry adequate public liability insurance and to hold harmless the PRHTA from lawsuits brought on account of damages relating to the construction of the projects.

On June 13, 2011 and February 17, 2012, PRHTA deposited approximately $21.8 million and $16.9 million, respectively, at the Federal Court of Puerto Rico as part of the appeal process at the U.S. Court of Appeals for the First Circuit of Boston for two legal cases related to construction projects. As of June 30, 2012, PRHTA, based on legal advice, has recorded a liability of approximately $70.8 million for probable losses on those claims not fully covered by insurance. In the opinion of legal counsel, any liability in excess of the recorded liability that may arise for such claims will not be significant to the PRHTA's financial position or results of operations.

PRHTA entered into a System and Test Track Turnkey Contract (STTT Contract) with Siemens Transportation Partnership Puerto Rico, S.E. (Siemens) and other contractors for the purpose of operating and maintaining the Urban Train. During 2005, the STTT Contract became effective upon execution of the contract for an initial term of five years with an option by PRHTA to extend the term for an additional five years. The compensation is based on a schedule included in the master agreement which approximates $4.0 million on a monthly basis. The total annual operation and maintenance cost, including cost of issuance and electricity, for fiscal year 2012 was approximately $55 million.

PRHTA faces a number of business challenges that have been exacerbated by the Commonwealth's economic recession and the fact that PRHTA has not increased tolls to its customers at sufficient levels to offset the effects of its rising costs. PRHTA's principal challenges, some of which are interrelated, are: (i) reduction of operating costs; (2) increase in the use of federal grants; and (iii) improving its liquidity. PRHTA is committed to take all necessary measures to ensure it achieves a healthy financial condition. Refer to note 18 (a) for additional measures and actions being taken by GDB as well on addressing PRHTA's challenges.

(c) PRASA

PRASA is a defendant on various lawsuits presented by customers alleging that PRASA has over billed them due to the methodology used to estimate consumption. There are two cases in which plaintiffs requested a certification of the suit as a class action and seek recovery damages in the amount of approximately $386 million, plus legal costs of around $100 million (25%) and interests and an injunction enjoining PRASA from continuing to bill using the current methodology. PRASA's potential exposure from these lawsuits is unlikely or cannot be presently determined and, as such, no liability is being reported on the accompanying basic financial statements.

PRASA is the defendant or codefendant in various other lawsuits. The ultimate outcome of the lawsuits cannot presently be determined. However, PRASA's management, based on the advice of legal counsels, is of the opinion that these lawsuits will not have a material impact on the basic financial statements.

(d) PREPA

PREPA is a defendant or codefendant in several lawsuits incidental to its business, some involving substantial amounts. In those instances that management and legal counsel believe that the outcome

of the litigation will be unfavorable to PREPA, a provision has been made to cover the estimated liability. PREPA's management, based on discussions with legal counsel, believes that the additional liability, if any, resulting from the ultimate resolution of these matters will not have a material effect on PREPA's financial position or results of operations.

On May 18, 2000, Abengoa, Puerto Rico, S.E. (Abengoa), PREPA's contractor for the repowering of San Juan steam plant units 5 and 6, unilaterally declared a termination of the contract with PREPA and filed a complaint for breach of contract. PREPA has moved for time to answer the complaint and has filed a counterclaim for the cost of the project and for all damages caused to PREPA by the alleged illegal contract termination. PREPA believes that the actions by the contractor will not materially affect the ability of PREPA to provide service nor there will be a material difference in the quality of service provided by PREPA.

In June 2004, the Office of the Comptroller of the Commonwealth of Puerto Rico (the "Comptroller") issued a report stating that PREPA overcharged its clients by approximately $49.8 million, and should reimburse this amount to such clients. After this report was made public, two lawsuits were filed by clients of PREPA against PREPA demanding the reimbursement of such alleged overcharges. PREPA's position is that the Comptroller incorrectly based his conclusion on data that is not relevant to the calculation of PREPA's rates, and that PREPA's rates were properly established in the year 2000 in accordance with applicable laws and regulations. In particular, PREPA notes that its rates properly take into consideration the cost of the fuel used by PREPA's generating facilities and the cost of the electricity purchased from the two co-generating facilities that sell power to PREPA.

In 2008, Power Technologies Corp. filed a suit against PREPA, alleging that PREPA had withdrawn from a contracting process for a new energy facility, in which Power Technologies was involved, without explanation or justification. Power Technologies seeks damages of $51.4 million. The case is currently in discovery stage.

In addition to these cases, PREPA is involved in typical litigation for an electric power utility, but management estimates the amounts of such claims are not material and will not affect adversely PREPA's operations.

(e) UPR

UPR participates in a number of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, or to compliance audits by grantor agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. Management believes the impact will not be material to the UPR's financial statements.

Effective April 23, 2012, the National Science Foundation (NSF), an independent U.S. government agency, suspended the federal awards for research and development in the Research and Development Center at the Mayagüez Campus and in the Resource Center for Science and Engineering ascribed to the Central Administration unit of the UPR because the UPR has not corrected the time and effort reporting deficiencies as established in the Corrective Action Plan. NSF is responsible for promoting science and engineering through research programs and education projects. NSF will not reimburse expenditures incurred on and after April 23, 2012 by the UPR in the involved units. Most of the research and training activities under grants affected by the suspension status continue with funding from the UPR. Significant interactions between NSF and

the UPR has led to a robust body of Effort Reporting System (ERS) policies and procedures, the creation of a system — wide Office for Research Compliance and Integrity and an overarching committee for continuous assessment and creation of sponsored programs, policies and procedures. The UPR is actually working with NSF to achieve a full compliance and lift the administration suspension.

(f) PRHIA

PRHIA has been requested to repay the Commonwealth's Department of the Treasury approximately $103 million representing excess transfers of money from the central government during the fiscal years 2001–2003. After consultation with external legal counsel, PRHIA is of the opinion that the money does not have to be repaid and believes that the likelihood of an unfavorable outcome is remote. Therefore, no reserve for such request has been recognized in PRHIA's financial statements.

(g) PRMeSA

On October 14, 2010, the Legislature of the Commonwealth approved a new article 9A to Act No. 66 of June 22, 1978, (the "Article"), authorizing PRMeSA to incur in obligations up to $285 million, under such terms and conditions approved by the Board of Member Institutions (the Board) of PRMeSA and GDB, as fiscal agent of the Commonwealth and its instrumentalities.

These additional funds shall be deposited in a special account at GDB and may only be used for the following purposes:

a. payment of debts to suppliers, agencies, institutions, reserve fund for the self-insurance (professional responsibility and inter-fund debt) of PRMeSA; and

b. to provide operational liquidity to ease PRMeSA's fiscal situation, as determined by the agreement with GDB.

From savings generated as a result of the debt renegotiations with the agencies and institutions, PRMeSA will create a fund to cover operating expenses related to maintenance, overhaul and reconditioning of the physical plant. GDB, in its role as fiscal agent, shall possess the administrative mechanisms as it deems necessary to ensure that these funds will be used solely and exclusively for the purposes set forth in the Article. The special bank account and the funds deposited therein shall not be seized, syndicated, frozen, encumbered or otherwise affected by decisions, judgments, orders or rulings issued by courts of Justice of the Commonwealth or its agencies or public corporations during any adjudicative proceeding of administrative or judicial nature, regardless of whether they were initiated by private individuals or public institutions.

PRMeSA was required to develop and implement within one hundred eighty (180) days from the approval of the Article, an aggressive collection plan for the recovery of its accounts receivable. The Directors shall report periodically to GDB on the implementation of that plan, and report annually to the Board and GDB the collection proceeds arising from the execution of the plan. GDB was authorized as fiscal agent to undertake any necessary measures in order to, within a reasonable period of time, help PRMeSA to become and operate as an independent fiscal instrumentality.

However, once the collection plan is working as expected and providing PRMeSA the funds resources required, and becomes a financially independent institution as determined by GDB, PRMeSA will be required to assume the remaining established obligations.

The Commonwealth will honor the payment of the obligations authorized, with legislative appropriations made by the Legislature on the annual budgets, beginning with the fiscal year 2012–2013 and ending in the fiscal year 2023–2024.

Also, for the fiscal years 2012–2013 and 2013–2014, the Director of the Office of Management and Budget, will consign on the annual budgets, the amount corresponding to interests on the obligations incurred and, beginning on fiscal year 2014–2015, and for the next nine (9) years, the amount of $31.5 million plus interests on the obligations incurred. If in any moment the legislative appropriations or other income of PRMeSA were not sufficient to cover the payment of the obligations authorized and the accrued interest, the Secretary of the Treasury will withdraw from any amounts available in the General Fund of the Commonwealth the necessary amounts to repay the principal and interests of the line of credit.

PRMeSA has accounts receivable aggregating to $22 million at June 30, 2012, from the Hospital of the Municipality of San Juan, related to medical services rendered. PRMeSA alleges that these amounts are related to services rendered during the period from June 30, 2005 to June 30, 2012. PRMeSA filed at the Department of Justice of the Commonwealth and with the Commission for the Resolution of Controversies over Payments and Debts between Governmental Agencies, a claim demanding the resolution of this matter. On June 29, 2009, the Commission designated the OMB to serve as a mediator in this claim. As of June 30, 2012, no resolution or recommendation has been made by the OMB in connection with this controversy.

PRMeSA is a party in certain legal actions and claims related to medical malpractice arising in the ordinary conduct of its business. Although PRMeSA appears as a defendant in the claims, many of them involve medical personnel of the member institutions, and in effect, these claims are against said institutions. As a result of the deficiency as of June 30, 2012, of funds available in the Self-Insurance Fund, any unfavorable outcome may have a significant effect on the financial condition of PRMeSA.

Based on a review of current facts and circumstances, PRMeSA’s management has provided for what is believed to be a reasonable estimate of the exposure to loss associated to litigation. PRMeSA has established an accrual reserve for claim losses in the amount of $7 million at June 30, 2012.

(h) PRIFA

At June 30, 2012, PRIFA is a defendant in various legal proceeding arising from its normal operations. Management, based on the advice of its legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings and legal actions in the aggregate will not have a material effect on PRIFA’s financial statements. However, management is of the opinion that they will reach settlements in certain cases. A liability to cover claims and other contingencies amounting to $7.5 million has been reflected as part of accounts payable and accrued expenses in the accompanying statement of net assets (deficit).

(i) Special Communities Perpetual Trust

The Special Communities Perpetual Trust (the “Trust”) has financial assistance agreements with several municipalities of the Commonwealth to provide funding for the construction, improvement and rehabilitation of certain projects of the Special Communities. At June 30, 2012, the Trust’s commitments with the municipalities for housing assistance projects amounted to approximately $107.8 million, from which a total of approximately $94.7 million had been disbursed.

The Trust is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of its normal operations. The Trust recorded approximately $290,000 to cover for awarded and anticipated unfavorable judgments at June 30, 2012. This amount represents the amount estimated as probable liability that will require future available financial resources for its payment. The amounts claimed approximate $13 million; however, the ultimate liability cannot be presently determined. It is the opinion of management that the claims are excessive and exaggerated.

(j) PCSDIPRC

PCSDIPRC provides insurance coverage over the stocks and deposits of all cooperatives in Puerto Rico. The deposit base of the cooperatives approximate $6.9 billion at June 30, 2012.

Environmental Commitments and Contingencies

Primary Government — The Commonwealth accounts for the pollution remediation obligations in accordance with GASB Statement No. 49, "*Accounting and Financial Reporting for Pollution Remediation Obligations*". This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and post-closure care.

Once any of five specified obligating events occurs, a government is required to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. Obligating events include the following:

- The government is compelled to take pollution remediation action because of an imminent endangerment.
- The government violates a pollution prevention–related permit or license.
- The government is named, or evidence indicates that it will be named, by a regulator as a responsible party or potentially responsible party (PRP) for remediation, or as a government responsible for sharing costs.
- The government is named, or evidence indicates that it will be named, in a lawsuit to compel participation in pollution remediation.
- The government commences or legally obligates itself to commence pollution remediation.

As of June 30, 2012, the Department of Transportation and Public Works recognized approximately $6.5 million of pollution remediation obligation in the accompanying statement of net assets (deficit) within other long-term liabilities. This obligation is related to pollution remediation activities necessary at various schools and related administrative structures in Puerto Rico.

During 2012, PBA identified asbestos in its central offices at Minillas government center. Asbestos removal costs were estimated based on environmental engineers' consultant surveys. PBA has accrued approximately $2 million to cover for the related pollution remediation efforts, and is presented within other long-term liabilities.

Component Units — The following component units' operations include activities that are subject to state and federal environmental regulations:

- *PREPA* — Facilities and operations of PREPA are subject to regulation under numerous federal and Commonwealth environmental laws, including the Clean Air Act, Clean Water Act, Oil Pollution Act (OPA), Resource Conservation Recovery Act (RCRA), Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and Underground Storage Tanks, among others. In February 1992, the Environmental Protection Agency (EPA) conducted a multimedia inspection of PREPA's facilities and identified several alleged instances of noncompliance related to PREPA's air, water, and oil spill prevention control and countermeasures compliance programs.

  PREPA and the EPA undertook negotiations to resolve the issues regarding the deficiencies observed during the inspection and to ensure future compliance with all applicable laws and regulations. As a result of the negotiations, PREPA and the EPA reached an agreement that resulted in a consent decree (the "Consent Decree") approved by the United States federal court in March 1999. Under the terms and conditions of the Consent Decree, PREPA paid a civil penalty of $1.5 million, and implemented additional compliance projects amounting to $4.5 million. In addition, the Consent Decree requires that PREPA improves and implements compliance programs and operations in order to assure compliance with environmental laws and regulations.

  In 2004, the United States federal court approved a modification to the Consent Decree agreed by PREPA and the EPA under which PREPA reduced, in two steps, the sulfur content in the No. 6 fuel oil used in certain generating units of its Costa Sur and Aguirre power plants (to 0.75% or less by March 1, 2005 and to 0.5% or less by March 1, 2007), and used No. 6 fuel oil with sulfur content of not more than 0.5% through July 18, 2009 at its Palo Seco and San Juan power plants. Additionally, PREPA has completed a nitrogen oxide emissions reduction program and modified the optimal operating ranges for all its units under the Consent Decree. PREPA also paid a $300,000 civil fine and reserved $200,000 to fund certain supplemental environmental projects and programs under the Consent Decree.

  PREPA has audited the Consent Decree programs and a considerable number of them can be closed since their requirements have been completed. The programs can be closed under a Stipulation of Partial Termination filed jointly, in federal court, with the EPA.

  Since September 2004, there has been no legal action in the United States federal court or any administrative proceeding against PREPA regarding the Consent Decree or its modification. The Consent Decree includes stipulated penalties for certain events of noncompliance. Noncompliance events must be disclosed to EPA in the corresponding report. Ordinarily, when a covered noncompliance event occurs, PREPA pays the stipulated penalty in advance in order to benefit from a 50% discount of the applicable stipulated penalty.

  In 1997, as a result of an inspection carried out by EPA and the Puerto Rico Environmental Quality Board (EQB) at PREPA's Palo Seco Power Plant, the EPA issued an Administrative Order for the investigation and possible remediation of seven areas identified by the EPA at the Palo Seco Power Plant and the Palo Seco General warehouse. The Administrative Order required PREPA to carry out a Remedial Investigation/Feasibility Study (RI/FS). The RI/FS required under the Order was designed to: (i) determine the nature and extent of contamination and any threat to the public health, welfare or environmental caused by any release or threatened release of hazardous substances, pollutants or contaminants at or from the site; and

(ii) determine and evaluate alternatives for the remediation or control of the release or threatened release of hazardous substances, pollutants, or contaminants at or from the site. The RI was completed and a final report was submitted to EPA for evaluation.

The information gathered under the RI reflected the presence of free product (Separate Phase Hydrocarbons) in several monitoring wells. The analysis of this product also reflected a low concentration of polychlorinated biphenyls (PCBs). PREPA and EPA entered in to an Administrative Order on Consent (AOC) (CERCLA-02-2008-2022) requiring PREPA to complete a removal plan that consisted of determining if the underground water had been impacted by PCBs, the extension of the contamination and the implementation of a work plan for free product removal. Analytical data collected during this activity reflected that underground water had not been impacted by PCBs. Nevertheless, water/oil mix was found in seven monitoring wells (MWs). PCBs concentrations between 1.36–2.36 parts per million were detected in the oil found in 3 of the 7 MWs. Multiphase extraction (MPE) activities in the MWs where water/oil phases were found, has been performed on a weekly basis. After several MPE, this activity was discontinued at EPA's recommendations.

On April 19, 2012, PREPA submitted for EPA's review and approval the final report letter for the AOC. On August 13, 2012, EPA notified by certified mail, that the final report was reviewed and determined that the work required pursuant the AOC has been fully carried out in accordance with its terms. Also, the letter indicated that the notification shall not affect any continuing obligation of respondents, including but not limited to the reimbursement of EPA response costs, as specified in the AOC.

Based on the findings of the RI, the Human Health Risk Assessment, the Screening Level Ecological Risk Assessment and the AOC, NO ACTION recommendation under CERCLA for the PREPA Palo Seco site is believed to be protective of human health and environment. The risk assessment indicate that the level of residual contaminants present at the site falls within EPA acceptable risk range. This non-action remedy complies with the federal and Commonwealth requirements.

Both Orders also established a Reimbursement of Costs condition in which PREPA agreed to reimburse EPA for all costs incurred by EPA in connection to the site. No bill has been received by PREPA, as of this date.

In 2002, PREPA received a "Special Notice Concerning Remedial Investigation/Feasibility Study for Soil" at the Vega Baja Solid Waste Disposal Superfund Site. The EPA has identified PREPA and six other entities as "potentially responsible parties", as defined in the CERCLA. In 2003, PREPA agreed to join the other potentially responsible parties in an Administrative Order on Consent (AOC) for an RI/FS, with the understanding that such agreement did not constitute an acceptance or responsibility. Under the AOC, PREPA committed up to $250,000 as its contribution to partially fund the RI/FS. At this time, RI/FS has been completed. The work proceeded in accordance with the schedule established by PREPA and the other designated potentially responsible parties. In July 2010, a proposed plan was issued identifying the Preferred Alternative to address soil contamination at the Vega Baja Solid Waste Disposal Site. EPA held a public hearing on August 3, 2010 to discuss the alternatives to address soil contamination.

The Record of Decision (ROD) was published as scheduled by EPA on September 30, 2011. Alternative No. 2, Removal with On-Site Consolidation and Cover in the Non-Residential Area, was selected. From this point on, EPA resumed negotiations with the PRP's, both private and

public, towards signing a Consent Decree through which the PRP's would contribute enough funds to cover the costs of the remedial action and the maintenance of the site. PREPA has already approved a contribution of $1,000,000 through Resolution 3804, April 1, 2011. Notwithstanding, through further negotiations an additional contribution of $300,000 was required by EPA. This additional contribution was approved by PREPA's Governing Board.

PREPA continues to develop and implement a comprehensive program to improve environmental compliance in all applicable environmental media. This program has been and continues to be updated to conform to new regulatory requirements.

- *PRASA* — On July 1, 2003, PRASA entered into an agreement (Civil Action No. 01-1709) with EPA to attain compliance with the Clean Water Act in relation to PRASA's wastewater pump stations (WWPSs) in response to a significant number of sanitary sewer bypasses from these locations. The Clean Water Act prohibits discharges of sewage from any point in the collection and treatment system other than the authorized point at the treatment facility. PRASA completed all improvement projects required by EPA for these WWPSs on or before the established completion dates in the agreement. This agreement also required PRASA to invest $1 million in the development and implementation of a Supplemental Environmental Project (SEP). This project consisted of the connection of three NON-PRASA communities to the PRASA's drinking water system. The connection has been completed and is awaiting completion of adjacent systems to fully integrate these systems to PRASA's service. The agreement also required the implementation of the Preventive Maintenance Program (PMP) for all of PRASA's WWPSs. This was fully completed in December of 2010, and is still in place. As part of the agreement, PRASA pays stipulated penalties for pump station bypass events on a quarterly basis. The penalty calculations are based on the pumping capacity of the pump station and the time taken to correct the deficiency causing the bypass event. The amount paid during fiscal year 2012 was approximately $500,000.

  On June 22, 2006, PRASA entered into a consent decree (Civil Action No. 06-1624) with EPA that requires PRASA to implement system-wide remedial measures at all of the wastewater treatment plants operated by PRASA. The decree establishes deadlines for the compliance with the conditions set forth in the agreement and stipulates penalties for violation of any of those deadlines. PRASA was assessed a stipulated civil penalty of $1 million which was paid during fiscal year 2008. This penalty was assessed by the Court as payment for the discharge permit violations of several treatment facilities to the Clear Water Act. The agreement also required PRASA to deposit in an escrow account with GDB an additional civil penalty of $3 million. These funds are to be used for providing sewer service to a community that has not been connected to PRASA's sanitary sewer system. PRASA is currently engaged in discussion with EPA as to the specific community that will benefit from this project. As part of the agreement, PRASA pays stipulated penalties on a yearly basis for exceedances to each of PRASA's facilities to their individual discharge permits. The penalty calculations are based on frequency of the exceedances as well as the percentage of the exceedances with its respective limit. The amount paid during fiscal year 2012 was approximately $600,000; plus approximately $300,000 due to revision on 2008 penalties. These penalty payments are deposited into an escrow account from which a fraction of the deposited amount can be reimbursed to PRASA based on completion of specific projects and initiatives.

  On May 25, 2006, PRASA entered into a plea agreement with the U.S. Department of Justice related to violations of the Clean Water Act, as amended, Title 33, USC, Sections 1131(a) and 1319(c)(2)(A). As part of the agreement (Criminal Case No. 06-CR-00202-001), PRASA paid a $9 million fine. This penalty was assessed by the Court as payment for the discharge permit

violations of several treatment facilities to the Clean Water Act. PRASA was placed on probation for a period of five years. As part of the probation PRASA has to comply with several special conditions, such as: (i) upgrade the collection and wastewater treatment system in the Ponce de León Avenue area of San Juan for a cost of not less than $10 million to prevent direct discharges to the Martín Peña Channel; (ii) upgrade nine wastewater treatment plants for a cost of not less than $109 million; and (iii) comply with the consent decree signed by PREPA with the U.S. government on June 22, 2006. The plea agreement also established stipulated penalties for violation of any on the deadlines of performance standards set forth in the agreement. Currently, PRASA is in compliance with the deadlines and requirements of this consent order and no penalties have been paid. Probation period expired on April 19, 2012.

On December 15, 2006, an agreement (Civil Case No. KPE 2006-0858 was signed between PRASA and the Department of Health of the Commonwealth related to violations of the Safe Drinking Water Act (SDWA), as amended. The agreement was preliminary approved by the supervising court on March 15, 2007 and it was amended and finally approved by that court on June 20, 2008. PRASA agreed to implement a work plan to remediate the violations, establish preventive and mitigation measures, and execute a preventive maintenance program for the purpose of meeting the requirements of the SDWA. This Act requires the compliance with parameters of water quality and treatment techniques in PRASA's water systems. As part of the agreement, PRASA paid a civil penalty of $1 million during fiscal year ended June 30, 2007. The civil penalty was stipulated by the court for alleged non-compliance issues to the SDWA attended in this decree. In this Consent Decree, PRASA shall pay stipulated penalties for failing to comply with remedial measures deadlines, fail to submit deliverables or exceedances to maximum contaminant levels. During fiscal year ended June 30, 2008 and based on the amendment and final approval of the agreement, PRASA accrued approximately $2.7 million for penalties for noncompliance as stipulated by the final agreement, which were paid during fiscal year 2009. Also, as part of the penalties for noncompliance with the remedial measures of the agreement with the Department of Health during fiscal year 2009, $1.3 million were deposited in a GDB escrow account to be used for a SEP. This SEP included three projects: (1) a chemical monitoring of 67 non-PRASA systems, (2) the installation of a disinfection system in six non-PRASA systems, and (3) the connection of schools that have their own deficient water systems to PRASA's water system. During fiscal year ended June 30, 2012, the penalties amounted to approximately $400,000. PRASA deposited $50,000 in an escrow account for parameters exceedances, and will be used for compliance projects with the approval of the Department of Health.

On November 2007, PRASA entered into negotiation of a consent decree (Civil Action No. 10-1365) with EPA that requires PRASA to implement system wide remedial measures at all of the sludge treatment systems at the water treatment plants owned and operated by PRASA. The consent decree was lodged on May 3, 2010 and its entry date was August 24, 2010. This consent order supersedes previous consent orders known as PRASA II (Civil Action No. 92-1511) and PRASA III (Civil Action No. 00-2554). This consent order establishes deadlines for the compliance with the conditions set forth in the proposed agreement and stipulates penalties for violation of any of those deadlines.

PRASA was assessed a civil penalty of approximately $3.2 million of which $1 million was paid to the Treasurer of the United States of America as a civil penalty, and $2.2 million was deposited in an escrow account with GDB for the design and construction of a SEP. This SEP consisted on the installation of an aeration system in the Toa Vaca Lake. The aeration system is expected to be in operation by October 2012. The total amount of penalties paid under this agreement during the fiscal year 2012 was approximately $100,000. Stipulated penalties must be

paid by PRASA for failing to comply with remedial measures deadlines, permitting limit exceedances or fail to submit deliverables or DMR's monthly reports or Discharge Monitoring Reports.

PRASA is in the process of renegotiation of all the consent decrees and commitments mentioned above. The objective of this renegotiation is to establish a prioritization system that will smooth out the economic impact of the capital improvement projects on a yearly basis.

- *SWA* — SWA initiated in years prior to the year ended June 30, 2012, the implementation and development of the Strategic Plan for Recycling and Disposal of Solid Waste in Puerto Rico at an estimated cost of approximately $112 million. The first stage consists of the construction of thirty-nine (39) projects to be financed through an interim financing agreement with the Government Development Bank for Puerto Rico. The lines-of-credit under the agreement were paid by the Treasury Department of the Commonwealth through joint resolutions approved by the Legislature of Puerto Rico. SWA has continued with the planning and construction of the projects.

  During May 2008, SWA approved the "Dynamic Itinerary for Infrastructure Projects of Solid Waste in Puerto Rico". This itinerary defines the strategies for safe and efficient handling of solid waste in Puerto Rico for the next twenty-five (25) years in compliance with all applicable regulations. SWA proposes this itinerary for the purpose of adopting this plan as the official instrument to guide public policy for the development of infrastructure projects for handling and final disposition of solid waste in Puerto Rico. The projects proposed in the itinerary include programs to develop facilities for the recovery of recyclable materials facilities (RMF's) for the deposit of acceptable sludge, facilities to convert solid waste to energy, transshipment facilities and lateral expansion to sanitary stuffing systems (SSS). The development of these projects takes into consideration the closing of various SSS. The construction investment is estimated in approximately $1.9 billion. SWA projects that financing for these projects will come from both the public and private sectors.

Construction Commitments — As of June 30, 2012, the following component units maintained various unspent construction agreements as follows (expressed in thousands):

Puerto Rico Highways and Transportation Authority	$ 734,593
Puerto Rico Aqueduct and Sewer Authority	191,300
Puerto Rico Electric Power Authority	45,600
Puerto Rico Infrastructure Financing Authority	43,233
University of Puerto Rico	46,600
Puerto Rico Ports Authority	24,147
Company for the Integral Development of the "Peninsula de Cantera"	20,922
Port of the Americas Authority	10,420
Puerto Rico and Municipal Islands Maritime Transport Authority	11,700
Governing Board of the 9-1-1 Service	2,020
Institute of Puerto Rican Culture	1,959
Puerto Rico Conservatory of Music Corporation	756
Puerto Rico Land Administration	652
Institutional Trust of the National Guard of Puerto Rico	302
Total	$1,134,204

20. RETIREMENT SYSTEMS

The Commonwealth sponsors three contributory pension plans (collectively known as the "Retirement Systems"), which are reported in the accompanying statement of fiduciary net assets:

- Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS)
- The Commonwealth of Puerto Rico Judiciary Retirement System (JRS)
- Puerto Rico System of Annuities and Pensions for Teachers (TRS)

Each system is independent; thus, their assets or liabilities may not be transferred from one system to another or used for any purpose other than to benefit the participants of each system.

The Retirement Systems issue financial reports, which are publicly available and include the basic financial statements, the required trend information, and any other required supplementary information. These reports may be obtained by written request to the corresponding retirement system administrator at the addresses detailed in note 1(b).

(a) ERS

Plan Description — The ERS is a defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration and was created by Act No. 447 on May 15, 1951. The ERS began operations on January 1, 1952, at which date, contributions by employers and participating employees commenced. The ERS is a pension trust fund of the Commonwealth. The ERS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The responsibility for the proper operation and administration of the ERS is vested on the board of trustees, composed of two participating employees and one pensioner, who are appointed by the Governor of the Commonwealth. Also, there are four Commonwealth government agency representatives, which are the Secretary of the Treasury, the President of the Government Development Bank for Puerto Rico, the Executive Director of the Commonwealth's Human Resources Office, and the Municipal Affairs Commissioner.

As of June 30, 2012, the ERS has an unfunded actuarial accrued liability of approximately $26.4 billion, representing a 4.5% funding ratio, using net assets. In the opinion of management and based on information prepared by external consulting actuaries, if measures are not implemented to deal with this situation, the ERS's net assets will be exhausted by the fiscal year 2015. This situation could have a direct negative effect on the Commonwealth's general fund, since most of the employers under the ERS are government agencies obligated to make actuarial contributions to fund the ERS.

To address these issues, ERS and the Commonwealth, with the assistance of the ERS external consulting actuaries, concluded that, in addition to other measures, annual increases in the employers' contribution rate would be required to fully fund pensions, without having to liquidate ERS investment portfolio. Accordingly, on July 16, 2011, the Commonwealth enacted Act No. 116, increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

Other measures taken to improve the funding ratio of ERS, include 1) improving the collection of late contributions by receiving such contributions directly from the Municipal Revenue Collection Center (CRIM) when a municipality fails to send their contributions within 30 days from the due date or from the Department of Treasury of the Commonwealth (Hacienda) in the case of agencies; 2) implementation of Act No. 70 establishing early retirement incentives; 3) revision of the Employee Personal Loan Policy by limiting personal and cultural loan amounts to $5,000 each, from $15,000 and $10,000, respectively; and 4) the receipt of a special contribution from the Commonwealth that was invested in junior subordinated capital appreciation bonds issued by the Puerto Rico Sales Tax Financing Corporation (the "COFINA Bonds") amounting to $162.5 million in 2011.

Act No. 70 established a program that provides benefits for early retirement or economic incentives for voluntary employment terminations to eligible employees, as defined. Act No. 70 also establishes that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees' monthly salary. Benefits under this program will be paid by the General Fund of the Commonwealth (the "General Fund") and by the public corporations, covering their respective employees until the plan member reaches the later of age 55 for members under Law 447 or age 65 for members under Act 1, or the date the plan member would have completed 30 years of service had the member continued its employment. ERS will be responsible for benefit payments afterwards. In addition, the General Fund and the public corporations will also be required to make a contribution equal to 9.275% (17.55% for public corporations) of the final salary of the plan member to the ERS.

Furthermore, on April 4, 2013, the Governor of Puerto Rico signed into law Act No. 3 of 2013, which represents a comprehensive reform of the ERS. Act No. 3 became effective on July 1, 2013 and amends the provisions of the different benefits structures under the ERS, including, but not limited to, the following:

1. For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 will be frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.

2. Increases the minimum pension for current retirees from $400 to $500 per month.

3. The retirement age for Act No. 447 participants will be gradually increased from age 58 to age 61.

4. The retirement age for current System 2000 participants is increased gradually from age 60 to age 65.

5. Eliminates the "merit annuity" available to participants who joined the ERS prior to April 1, 1990.

6. The retirement age for new employees is increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.

7. The employee contribution rate will increase from 8.275% to 10%.

8. For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.

9. Eliminates or reduces various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees is reduced from $600 to $200 and is eliminated for future retirees. The summer bonus will be eliminated.

10. Disability benefits will be eliminated and substituted for a mandatory disability insurance policy.

11. Survivor benefits will be modified.

In addition, the Commonwealth has proposed incremental annual contributions from the General Fund of $140 million per year, for the next 20 years, to increase the liquidity and solvency of the ERS. An appropriation for such annual contribution has been included in the Commonwealth's proposed budget for the fiscal year 2014.

Based on current census data, expectations of market conditions and other actuarial information provided by consulting actuaries, the changes instituted by Act No. 3, along with the additional annual contributions of $140 million to be received from the Commonwealth during the next 20 years, will be sufficient to cover the System's current and future obligations.

The successful implementation of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

The ERS consists of different benefit structures pursuant to Act No. 447 of 1951, as amended, including a cost-sharing multi-employer contributory defined benefit program and a cash balance program, similar to a cash balance plan. The ERS is sponsored by the Commonwealth, public corporations, and municipalities of Puerto Rico. Substantially all full-time employees of the Commonwealth and its instrumentalities (Commonwealth Agencies, Municipalities, and Public Corporations, including the ERS) are covered by the ERS. All regular, appointed, and temporary employees of the Commonwealth at the date of employment become plan members of the ERS. The ERS is optional for Commonwealth officers appointed by the Governor and Head of Agencies.

Plan members, other than those who joined the ERS after March 31, 1990, are eligible for the benefits described below:

Retirement Annuity — Plan members are eligible for a retirement annuity upon reaching the following age:

Policemen and Firefighters	**Other Employees**
50 with 25 years of credited service	55 with 25 years of credited service
58 with 10 years of credited service	58 with 10 years of credited service

Plan members are eligible for monthly benefit payments determined by the application of stipulated benefit ratios to the plan member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by the ERS. The annuity, for which a plan member is eligible, is limited to a minimum of $400 per month and a maximum of 75% of the average compensation.

Merit Annuity — Plan members are eligible for merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65% and a maximum of 75% of the average compensation. As a result of the enactment of Act No. 3 of April 4, 2013, merit annuities will no longer be available to participants who joined ERS after April 1, 1990.

Deferred Retirement Annuity — A participating employee who ceases to be an employee of the Commonwealth after having accumulated a minimum of 10 years of credited service qualifies for retirement benefits provided his/her contributions to the ERS are left within the ERS until attainment of 58 years of age.

Coordinated Plan — On the coordinated plan, the participating employee contributes a 5.775% of the monthly salary for the first $550 and 8.275% for the excess over $550. By the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced by the following:

- $165 per month if retired with 55 years of age and 30 years of credited service.
- $110 per month if retired with less than 55 years of age and 30 years of credited service.
- All other between $82 and $100 per month.
- Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over $165 per month.

Noncoordinated Plan — On the noncoordinated plan, the participating employee contributes an 8.275% of the monthly salary and does not have any change on the pension benefits upon receiving social security benefits.

Reversionary Annuity — A plan member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The life annuity payments would start after the death of the retiree for an amount not less than $240 yearly or greater than the annuity payments being received by the retiree.

Occupational Disability Annuity — A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled, is eligible for a disability annuity of 50% of the compensation received at the time of the disability.

Nonoccupational Disability Annuity — A participating employee totally and permanently disabled for causes not related to his/her occupation, and with no less than 10 years of credited service, is eligible for an annuity of 1.5% of the average compensation of the first 20 years of credited services increased by 2% for every additional year of credited service in excess of 20 years.

Death Benefits:

Occupational:

Surviving Spouse — annuity equal to 50% of the participating employee's salary at the date of the death.

Children — $10 per month for each child, minor or student, up to a maximum benefit per family of 100% of the participating employee's salary at the date of the death. If no spouse survives, or dies while receiving the annuity payments, each child, age 18 or under, is eligible to receive an annuity of $20 per month up to the attainment of 18 years of age or the completion of his/her studies.

Nonoccupational:

Beneficiary — the contributions and interest accumulated as of the date of the death plus an amount equal to the annual compensation at the time of death.

Postretirement — Beneficiary with surviving spouse age 60 or over and child, age 18 or under, up to 50% (60%, if not covered under Title II of the Social Security Act) of retiree's pension or otherwise the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $750.

Refunds — A participating employee who ceases his/her employment with the Commonwealth without right to a retirement annuity has the right to a refund of the contributions to the ERS, plus any interest earned thereon.

Amendments to Benefits Structure for Plan Members who Joined the ERS on or After April 1, 1990 — Act No. 1 of February 16, 1990, made certain amendments applicable to new participating employees joining the ERS effective April 1, 1990. These changes consist principally of an increase in the retirement age from 55 to 65, a decrease in the benefit percentage of the average compensation in the occupational disability and occupational death benefits annuities from 50% to 40%, and the elimination of the merit annuity for participating employees (except policemen and firemen) who have completed 30 years of creditable service.

Cost of Living Adjustment for Pension Benefits — Act No. 10 of May 21, 1992, provided for increases of 3% every three years, of the pensions paid by the ERS to those plan members with three or more years of retirement. The Act requires further legislation to grant this increase every three years, subject to the presentation of actuarial studies regarding its costs and the source of financing. Since fiscal year 1992 to 2007 there have been other acts addressing the cost of living allowance (C.O.L.A.) such as Act No. 207 of August 13, 1995; Act No. 221 of August 9, 1998; Act No. 40 of June 13, 2001; Act No. 157 of June 27, 2003; and Act No. 35 of April 24, 2007.

On April 24, 2007, the then Governor signed Act No. 35 to provide for an increase of 3% of the pension paid by the ERS to those plan members whose monthly pension is less than $1,250, effective on July 1, 2008.

To protect the financial health of the ERS, the increases granted pursuant to the above laws are being financed through annual appropriations from the Commonwealth and contributions from municipalities and public corporations.

Other Benefits Granted — For fiscal years 2003 to 2007, the Commonwealth granted additional benefits to the ERS's retirees. As of June 30, 2012, these increases are being funded through special appropriations from the Commonwealth for the amount corresponding to the Commonwealth agencies and by contributions from the public corporations and municipalities.

Early Retirement Programs — During fiscal year 2008, the Commonwealth issued Act No. 70, dated July 13, 2007, to implement an early retirement program for the employees of the National Parks Company of Puerto Rico. The Municipality of San Juan issued Resolution No. 41, dated

May 5, 2008, which provided an early retirement program for the municipalities' employees. The National Parks Company of Puerto Rico has already made two payments and would reimburse the remaining balance on annuities and other benefits paid by the ERS in three installments on each July 31 starting on 2009 through 2012. The Municipality of San Juan will reimburse the annuities and other benefits paid by the ERS during a five-year period, plus the employer and employee contributions with respect to the plan members covered until they reach the normal retirement age.

The Land Authority of Puerto Rico (the "Land Authority") implemented an early retirement program for its employees under Law No. 59 of January 31, 2008. The Land Authority has already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the ERS in four installments on each July 31 starting in 2009 through 2012.

The Right to Employment Administration (the "Administration") implemented an early retirement program for its employees under Law No. 275 of December 31, 2008. The Administration already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the ERS in four installments on each July 31 starting in 2009 through 2012.

The Puerto Rico Environmental Quality Board (the "EQB") implemented an early retirement program for its employees under the Act No. 7 dated August 9, 2008. The EQB has already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the ERS in four installments on each July 31 starting in 2009 through 2012.

The Puerto Rico Department of Labor and Human Resources (the "Department of Labor") implemented an early retirement program for its employees under the Law 136 dated July 29, 2008. The Department of Labor has already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the ERS in four installments on each July 31 starting in 2009 through 2012.

Amendment to Act No. 447 Effective January 1, 2000, to Create System 2000 — On September 24, 1999, Law 305, an amendment to Act No. 447 of May 15, 1951, which created the ERS, was enacted to provide for a new benefit structure, similar to a cash balance plan, known as System 2000, to cover employees joining the ERS on or after January 1, 2000.

Employees participating in the ERS as of December 31, 1999, were allowed to elect either to stay in the defined benefit structure or transfer to System 2000. People joining the public sector on or after January 1, 2000, are only allowed to become members of System 2000. Under System 2000, contributions received from participants are pooled and invested by the ERS, together with the assets corresponding to the defined benefit structure. Future benefit payments under the original defined benefit structure and System 2000 will be paid from the same pool of assets. As a different benefit structure, System 2000 is not a separate plan, and as such, is not presented separately from the original defined benefit structure, pursuant to the provisions of GASB Statement No. 25. The Commonwealth does not guarantee benefits at retirement age.

The annuity benefits to participants is based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested as instructed by the employee in an account which either: (1) earns a fixed rate based on the two-year Constant Maturity Treasury Notes or, (2) earns a rate equal to 90% of the return of the ERS's investment portfolio (net of management fees), or (3) earns a combination of both alternatives. Plan members receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability benefits are not granted under System 2000 rather should be provided to those plan members that voluntarily elect to participate in a

private insurance long-term disability program. The employers' contributions (10.275% of the employee's salary for 2012) with respect to employees under System 2000 will continue but will be used to fund the defined benefit plan. System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or after January 1, 2000.

At June 30, 2012, System 2000's membership consisted of 62,043 current participating employees.

As discussed above, Act No. 3 of 2013 substantially amends the provisions of the previous Acts governing the ERS benefit structures and programs, as described above.

Funding Policy — The contribution requirement to the ERS is established by law and is not actuarially determined. Required employers' contributions consist of 10.275% of applicable payroll in the cases of municipalities, central government, and public corporations. Required employee contribution consists of 5.775% of the first $550 of the monthly salary with the excess at 8.275% for the coordinated benefit structure and 8.275% of the total monthly salary for participating employee's contributions for the noncoordinated benefit structure. If necessary, additional non payroll related contributions from the Commonwealth should ultimately cover any deficiency between the participating employers' and employee's contributions and the ERS's pension benefit obligations and general and administrative deductions.

ERS, besides the contributions received from plan members and employers, also receives legislative appropriations from special laws to cover additional benefits and the increase in benefits to retired employees. In the past years, there have been laws that granted additional benefits, such as, summer and Christmas bonuses, and various increases in cost of living allowances (3%), among others.

Most of the funds used to cover these benefits are budgeted by the Commonwealth through legislative appropriations.

During the year ended June 30, 2012, ERS decreased the assumed rate of return from 6.4% in 2011 to 6% in 2012, which resulted in an increase of approximately $2.09 billion in the actuarial accrued liability.

As discussed above, Act No. 3 of 2013 substantially amends the provisions of the previous Acts governing the ERS funding policies, as described above.

(b) JRS

Plan Description — The Commonwealth of Puerto Rico Judiciary Retirement System (the "JRS") is a defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration (the "Administration") and was created by Act No. 12 on October 19, 1954 ("Act No. 12 of 1954"). The JRS is a pension trust fund of the Commonwealth and is not an employer. The JRS provides retirement benefits to the employees of the judiciary branch of the Commonwealth, through the office of the Administration of Court Facilities (the "Employer"). The JRS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The responsibility for the proper operation and administration of the JRS is vested on a board of trustees, composed of two participating employees and one pensioner, who are appointed by the Governor of the Commonwealth. Also, there are four Commonwealth government agency representatives, which are the Secretary of the Treasury, the President of the Government Development Bank for Puerto Rico, the Commissioner of Municipalities Affairs, and the Executive Director of the Human Resources Office of the Commonwealth of Puerto Rico.

As of June 30, 2012, the JRS has an unfunded actuarial accrued liability of approximately $358 million, representing a 14.1% funding ratio. In the opinion of management and based on information prepared by consulting actuaries, if measures are not taken now to deal with this situation, the JRS assets will be exhausted by the fiscal year 2019. This situation could have a direct negative effect on the Commonwealth's general fund, since the Commonwealth is the plan sponsor and is obligated to make actuarial contributions to fund the JRS.

To address these issues, JRS and the Office of the Administration of Court Facilities ("the Employer") entered into an agreement to increase the employer contributions from 20% to 30.34%, effective on July 1, 2008. Employees' contributions consist of 8% of the employees' monthly salary. Contributions from the Commonwealth should ultimately cover any deficiencies between the employer's and employee contributions and JRS pension benefit obligation and administrative costs.

The success of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

The Administration allocated 1.6746% of its general and administrative expenses to the JRS during the year ended June 30, 2012. The methodology used to determine the allocation of the Administration's expenses is based on total Employer and participating employees' contributions to the JRS, divided by the aggregate total of employers and participants' contributions to the JRS and ERS, combined.

During the year ended June 30, 2012, the JRS liquidated investments of approximately $9.9 million to cover the Department of Treasury overdraft.

The JRS consists of a single-employer defined benefit plan sponsored by the Commonwealth. Under the terms of Act No. 12 of 1954, as amended, all judges of the judiciary branch of the Commonwealth are plan member of the JRS.

Members of the JRS are eligible for the following benefits:

Retirement Annuity — Plan members with 10 years of credited service are eligible for retirement upon reaching 60 years of age.

Plan members are eligible for monthly benefit payments determined by the application of a stipulated benefit to the plan member's average compensation. Average compensation is computed based on the last month of compensation. The annuity for which a plan member is eligible, is limited to a minimum of 25% and a maximum of 75% of the average compensation, except for the judges of the Supreme Court for whom the annuity is limited to a minimum of 50% and a maximum of 100% of the average compensation received by the members of the Supreme Court.

Reversionary Annuity — A plan member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The payments would

start after the death of the retiree, for an amount not less than $120 yearly or greater than the annuity payments being received by the retiree.

Occupational Disability Annuity — A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled, is eligible for a disability annuity of 50% of the compensation received at the time of the disability.

Nonoccupational Disability Annuity — A participating employee totally and permanently disabled for causes not related to his/her occupation, and with no less than 10 years of credited service, is eligible for annuity of 30% of the average compensation of the first 10 years of credited services, increased by 1% for every additional year of credited service in excess of 10 years, up to a maximum of 50% of the average compensation.

Death Benefits:

Occupational:

Surviving spouse — annuity equal to 50% of the participating employee's salary at the date of the death.

Children — $10 per month for each child, minor or student, up to a maximum benefit per family of 75% of the participating employee's salary at the date of the death. If no spouse survives or dies while receiving the annuity payments, each child, 18 or under, is eligible to receive an annuity of $20 per month up to the attainment of 18 years of age or the completion of his/her studies.

Nonoccupational:

The contributions and interest accumulated as of the date of the death, plus an amount equal to the annual compensation at the time of the death.

Postretirement:

Surviving spouse and child, 21 or under — up to 60% of the retiree's pension.

Other designated by the retiree — the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $500.

Refunds — A participating employee who ceases his/her employment with the Commonwealth without right to a retirement annuity has the right to a refund of the contributions to the JRS, plus any interest earned thereon.

Cost of Living Adjustment for Pension Benefits — Act No. 177 of 1997 provides, effective January 1, 1999, for increases of 3%, every three years, of the pensions paid by the JRS to those plan members with three or more years of retirement.

Funding Policy — The contributions to the JRS are established by law and are not actuarially determined. Required contributions consist of 30.34% of applicable payroll for the Employer and 8% for the participating employees. Contributions from the Commonwealth should ultimately cover any deficiency between the Employer's and employees' contributions and the JRS's pension benefit obligations and administrative costs.

During the year June 30, 2012, JRS decreased the assumed rate of return from 6.6% in 2011 to 6.1% in 2012, which resulted in an increase of approximately $30 million in the actuarial accrued liability.

(c) TRS

Plan Description — The Puerto Rico System of Annuities and Pensions for Teachers (the “TRS”) is a defined benefit plan administered by the Puerto Rico Teachers Retirement System and was created by Act No. 91 of March 29, 2004, that superseded Act No. 218 of May 6, 1951. The TRS is considered an integral part of the Commonwealth’s financial reporting entity and is included in the Commonwealth’s basic financial statements as a pension trust fund. The TRS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974.

The responsibility for the proper operation and administration of the TRS is vested in a Board of Trustees (the “Board”), composed of nine members, as follows: three ex-official members, which are the Secretary of the Treasury, the Secretary of the Department of Education, and the President of GDB; one member who is a representative of a teacher’s organization designated by the Governor; three teachers of TRS appointed by the Governor, one of which is a currently certified teacher in active service, and two who represented retired teachers; one member who is a representative of the entity in accordance with Act No. 45 of February 25, 1998, as amended; and one additional member, as representative of the public interest, with knowledge of and experience in the administration and operation of financial systems, appointed by the Governor.

As of June 30, 2012, TRS has an unfunded actuarial accrued liability of approximately $10 billion, resulting in a funding ratio of 17%. In the opinion of management, based on information prepared by consulting actuaries, if measures are not taken now to deal with this situation, TRS assets will be exhausted by the fiscal year 2021. This situation could have a direct negative effect on the Commonwealth’s general fund, since the Commonwealth is the ultimate plan sponsor and will be obligated to make actuarial contributions to fund TRS.

To attend these issues, TRS and the Commonwealth, with the assistance of the TRS’s external consulting actuaries, concluded that annual increases in the employers’ contribution rate were required to fully fund pensions, without having to liquidate the TRS’s investment portfolio. As a result of such determination, the Commonwealth approved Act No. 114 on July 5, 2011, establishing annual employer contribution increases of 1% for the fiscal years 2012 to 2016. In addition, it establishes annual employer contribution increases of 1.25% for the fiscal years 2017 to 2021.

The success of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

The TRS is a defined benefit plan sponsored by the Commonwealth. Substantially, all active teachers of the Commonwealth’s Department of Education are covered by the TRS under the terms of Act No. 91 of March 29, 2004, that superseded Act No. 218 of May 6, 1951. The new law gives the Puerto Rico Teachers Retirement System’s active employees as of March 29, 2004, the option to participate in the plan. Employees recruited by the Puerto Rico Teachers Retirement System after the approval of the new law become members of the plan. All active teachers of the Department of Education become plan members of the TRS at their date of employment. Licensed teachers working in private schools or other educational organizations can be members of the TRS at their own choice as long as the required employer and employee contributions are satisfied.

The plan members of the TRS are eligible for the benefits described below:

Retirement Annuity — Plan members are eligible for monthly benefit payments determined by the application of stipulated benefit ratios to the plan member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by the TRS. The annuity for which a plan member is eligible is limited to a minimum of $400 per month and a maximum of 75% of the average compensation.

The plan members are eligible for retirement annuity benefits upon complying with the following:

Age	Years of Creditable Services	Retirement Annuity Compensation
Fifty	30 or more	75% of average compensation
Under fifty	30 or more	65% of average compensation
Sixty	At least 10, but less than 25	1.8% of average compensation times years of service
Fifty	At least 25, but less than 30	1.8% of average compensation times years of service
Forty-seven but less than Fifty	At least 25, but less than 30	95% of the annual pension that would have received with 50 years of age

Deferred Retirement Annuity — A participating employee who terminates service before age 60, after having accumulated a minimum of ten years of creditable services, qualifies for a deferred retirement annuity payable beginning at age 60. A participating employee who has completed 25 or more years of creditable services and is under the age of 47 at termination, qualifies for a deferred retirement annuity payable beginning at age 47. The vested rights described above are provided if his/her contributions to the TRS are left within the TRS until the attainment of the respective retirement age.

Occupational Disability Annuity — A participating employee, who as a direct result of the performance of his/her occupation becomes disabled, is eligible for an annuity of 1.8% of average compensation based on the highest 60 months or the number of months of creditable services, if less than five years, recognized by the TRS, times years of creditable services; but not less than $400 per month.

Nonoccupational Disability Annuity — A participating employee disabled for causes not related to his/her occupation, and with at least five years of credited service, is eligible for an annuity of 1.8% of average compensation based on the highest 60 months recognized by the TRS, times years of service; but not less than $400 per month.

Death Benefits:

Pre-retirement — The beneficiaries receive the contributions made to the plan and 2% interest accumulated as of the date of death (after discounting debts with the TRS), plus an amount equal to the annual compensation of the member at the time of death.

Post-retirement — The surviving spouse receives 50% of the retiree's pension and if there are children under 22 years of age or disabled (until disability ceases), they receive the other 50% of the pension. If there is no surviving spouse or children who qualify, the beneficiaries receive the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $1,000.

Refunds — A participating employee who ceases his/her employment with the Commonwealth without the right to a retirement annuity has the right to a refund of the employee contributions paid to the TRS, plus any interest earned thereon.

Early Retirement Program — On January 27, 2000, Act No. 44 was approved, which provided that effective March 9, 2000, plan members are eligible for early retirement upon attaining the age of 50 and 28 years of services in the first year of implementation and age 50 and 25 years of service in subsequent years. Those who select early retirement under these conditions will receive monthly benefits equal to 75% of their average compensation, which is computed based on the highest 36 months of compensation recognized by the TRS. Effective July 31, 2001, the option for early retirement was closed.

Special Benefits — Special benefits include the following:

- Christmas Bonus — An annual bonus of $600 for each retiree and disabled member paid each December. The TRS pays $150 per retiree and disabled member and the remaining bonus is paid by the Commonwealth.

- Summer Bonus — An annual bonus of $100 for each retiree, beneficiary, and disabled member paid each July. This benefit is prorated if there are multiple beneficiaries and is funded by the Commonwealth.

- Medication Bonus — An annual bonus of $100 for each retiree, beneficiary, and disabled member paid each July to cover health costs. Evidence of coverage is not required. This benefit is funded by the Commonwealth.

- Cost-of-Living Adjustments — Act No. 62 of September 4, 1992 provided, subject to the approval of the Legislature of the Commonwealth (the "Legislature"), for increases of 3% every three years in pensions to those plan members with three or more years of retirement. In years 1995, 1998, 2001, 2004, and 2007, the Legislature has replicated the benefit granted per Act No. 62 of September 4, 1992. This benefit is funded by the Commonwealth.

- Other Pension Increase Acts — Act No. 128 of June 10, 1967 and Act No. 124 of June 8, 1973 provided a pension increase (form 2% to 10%) based on the monthly pension, and Act No. 47 of June 1, 1984, provided a pension increase based on credited service worked. This increase is funded by the Commonwealth.

- Cultural Loans — Act No. 22 of June 14, 1965 provides a 50% repayment of the interest that would be paid by the active teachers and retirees. This benefit is funded by the Commonwealth.

- Death Benefit — Act No. 272 of March 29, 2004 increases the death benefit of $500 to $1,000. This $500 increase is funded by the Commonwealth.

Funding Policy — Participating employees are required to contribute 9% of their compensation to the TRS, while the employer was required to contribute 9.5% of the applicable payroll for the year ended June 30, 2012. However, Act No. 114 provides for annual employer contribution increases of 1% for the fiscal years 2013 to 2016, and 1.25% annually for the fiscal years 2017 to 2021. Commonwealth contributions should ultimately cover any deficiency between the participating employees' contributions and the TRS's pension benefit obligations and administrative costs.

The special contributions of approximately $53,405,000 in 2012 represent contributions from the general fund of the Commonwealth for special benefits granted by special laws.

During the year ended June 30, 2012, TRS decreased the assumed rate of return from 6.4% in 2011 to 5.95% in 2012, which resulted in an increase of approximately $0.08 billion in the actuarial accrued liability.

Other relevant information on the Commonwealth's Retirement Systems is presented below (as of June 30, 2012, for ERS, JRS, and TRS):

(d) Membership as of June 30, 2012

	ERS	JRS	TRS	Total
Retirees and beneficiaries currently receiving benefits	117,861	404	37,243	155,508
Current participating employees	134,566	374	42,707	177,647
Total	252,427	778	79,950	333,155

(e) Annual Pension Cost and Net Pension Obligation

The Commonwealth's annual pension cost and net pension obligation of the three pension plans as of and for the year ended June 30, 2012 were as follows (expressed in thousands):

	ERS	JRS	TRS	Total
Annual required contributions	$ 2,019,467	$ 33,544	$ 659,334	$ 2,712,345
Interest on net pension obligation	467,723	3,582	125,626	596,931
Adjustment to annual required sponsors' contributions	(584,144)	(4,852)	(111,069)	(700,065)
Annual pension cost	1,903,046	32,274	673,891	2,609,211
Statutory sponsors' contributions made	(589,743)	(11,448)	(174,571)	(775,762)
Increase in net pension obligation	1,313,303	20,826	499,320	1,833,449
Net pension obligation at beginning of year	7,308,172	54,268	1,962,912	9,325,352
Net pension obligation at end of year	$ 8,621,475	$ 75,094	$ 2,462,232	$ 11,158,801

The net pension obligation for ERS, JRS and TRS of approximately $11.2 billion, is recorded in the accompanying statement of net assets (deficit).

The following tables show the most significant actuarial methods and assumptions used to estimate the net pension obligation:

	ERS	JRS	TRS
Date of latest actuarial valuation	June 30, 2012	June 30, 2012	June 30, 2012
Actuarial-cost method	Projected unit credit cost method with straight proration based on service to decrement	Projected unit credit cost method with straight proration based on service to decrement	Entry age normal
Amortization method	30 years closed, level dollar	30 years closed, level percentage of payroll	30 years closed, level percentage of payroll
Remaining amortization period	26 years	15 years	26 years
Amortization approach	Closed	Closed	Closed

The annual required contribution for the year ended June 30, 2012, was determined by actuarial valuations for each of the pension plans as described below:

	ERS	JRS	TRS
Asset-valuation method	Market value of assets	Market value of assets	Market value of assets
Actuarial assumptions:			
Inflation	2.5 %	2.5 %	2.5 %
Investment rate of return	6.4	6.6	6.40
Projected payroll growth	2.5	-	-
Projected salary increases per annum	3.0	3.0	3.5 % (general wage inflation, plus service — based merit increase)
Cost-of-living adjustments	0.99% annually to approximate 3.0% triennial increases	0.99% annually to approximate 3.0% triennial increases	None
Mortality	Pre-retirement Mortality: For general employees and Mayors, RP-2000 Employee Mortality Rates for males and females projected on a generational basis using Scale AA. For members covered under Act 127, RP-2000 Employee Mortality Rates with blue collar adjustments for males and females, projected on a generational basis using Scale AA. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act 127. For other members, 25% of deaths while in active service are assumed to be occupational and 75% are assumed to be non-occupational. Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for females. The rates are projected on a generational basis starting in 1994 using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date. Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of of plan's experience from 2007 to 2012 equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality table for females. No provision was made for future mortality improvement for disabled retirees.	Pre-retirement Mortality: RP-2000 Employee Mortality Rates with white collar adjustments for males and females, projected on a generational basis using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date. Among deaths while in active service, 50% are assumed to be occupational, 50% are assumed to be nonoccupational. Post-retirement Healthy Mortality: RP-2000 Healthy Annuitant Mortality Rates with white collar adjustments for males and females, projected on a generational basis using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date. Post-retirement Disabled Mortality: RP-2000 Disabled Annuitant Mortality Rates, without projection. No provision was made for future mortality improvement for disabled retirees.	Pre-retirement Mortality: RP-2000 Employee Mortality Rates for males and females, projected on a generational basis using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date. Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 equal to 92% of the rates from the UP-1994 Mortality Table for Males and 87% of the rates from the UP-1994 Mortality Table for females. The rates are projected on a generational basis starting in 1994 using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date. Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 equal to the rates in the UP-1994 Mortality Table for males and females. No provision was made for future mortality improvement for disabled retirees.

The ERS, JRS, and TRS statutory contribution as a percentage of the required contribution for the current year and each of the two preceding years is as follows:

	ERS	JRS	TRS
Year ended June 30, 2012	29.20 %	34.13 %	26.48 %
Year ended June 30, 2011	40.44	36.90	30.60
Year ended June 30, 2010	36.60	39.13	34.87

(f) Three Year Trend Information

The three year trend information is as follows (dollars expressed in thousands):

	ERS	JRS	TRS
Annual pension cost (APC):			
Year ended June 30, 2012	$1,903,046	$32,274	$ 673,891
Year ended June 30, 2011	1,656,181	29,113	550,400
Year ended June 30, 2010	1,397,151	27,896	496,338
Percentage of APC contributed:			
Year ended June 30, 2012	31.0 %	35.5 %	25.9 %
Year ended June 30, 2011	42.4	37.6	29.4
Year ended June 30, 2010	38.2	39.5	33.5
Net pension obligation (asset):			
At June 30, 2012	$8,621,475	$75,094	$2,462,232
At June 30, 2011	7,308,172	54,268	1,962,912
At June 30, 2010	6,353,700	36,110	1,574,140

(g) Funded Status

Funded status of the pension plans as of June 30, 2012, the most recent actuarial valuation date, is as follows (dollars expressed in thousands):

	ERS	JRS	TRS	Total
Actuarial accrued liability	$27,645,786	$416,340	$12,350,836	$40,412,962
Actuarial value of assets	1,237,532	58,588	2,099,261	3,395,381
Unfunded actuarial accrued liability	$26,408,254	$357,752	$10,251,575	$37,017,581
Funded ratio	4.5 %	14.1 %	17.0 %	8.4 %
Covered payroll	$ 3,570,339	$ 33,066	$ 1,292,975	$ 4,896,380
Unfunded actuarial accrued liability as a percentage of covered payroll	739.7 %	1,081.9 %	792.9 %	756.0 %

The schedule of funding progress presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations.

21. OTHER POSTEMPLOYMENT BENEFITS

The Commonwealth provides postemployment healthcare benefits through defined benefit plans that are administered by the Retirement Systems:

- Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution (ERS MIPC)
- The Puerto Rico Judiciary Retirement System Medical Insurance Plan Contribution (JRS MIPC)
- Puerto Rico System of Annuities and Pensions for Teachers Medical Insurance Plan Contribution (TRS MIPC)

(a) Plans Descriptions

ERS MIPC is a cost sharing multiple employer defined benefit other postemployment benefit (OPEB) plan sponsored by the Commonwealth. JRS MIPC and TRS MIPC are single employer defined benefit OPEB plans sponsored by the Commonwealth. These OPEB plans were created under Act No. 95 approved on June 29, 1963. Healthcare benefits are provided through insurance companies whose premiums are paid by the retiree with the Commonwealth providing a matching share. ERS MIPC covers substantially all full time employees of: (1) the Commonwealth's primary government and (2) certain municipalities of Puerto Rico and certain component units of the Commonwealth not having their own postemployment benefit plan. JRS MIPC covers all judges of Judiciary Branch of the Commonwealth. TRS MIPC covers all active teachers of the Department of Education of the Commonwealth.

Commonwealth employees become plan members upon their date of employment. Plan members are eligible for benefits upon reaching the following age:

ERS MIPC
Police and Firemen

50 with 25 years of credited service
58 with 10 years of credited service

Other Employees

55 with 25 years of credited service
58 with 10 years of credited service

JRS MIPC

60 with 10 years of credited service

TRS MIPC

47 with 25 years of credited service
60 with 10 years of credited service

Funding Policy — The contribution requirement of ERS MIPC, JRS MIPC and TRS MIPC are established by Act No. 95 approved on June 29, 1963. The benefits are paid directly by the Commonwealth to the insurance providers at a rate of a maximum of $100 per month per retiree. All

these OPEB plans are financed on a pay-as-you-go basis. There is no contribution requirement for plan member during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution.

(b) Membership as of June 30, 2012

	ERS	JRS	TRS	Total
Retirees and beneficiaries currently receiving benefits	117,861	404	37,243	155,508
Current participating employees	134,566	374	42,707	177,647
Total	252,427	778	79,950	333,155

(c) Annual OPEB costs and Net OPEB obligation

The annual OPEB cost and the annual required contribution (ARC) were computed as part of an actuarial valuation in accordance with parameters of GASB Statement No. 45 based on current years demographic data.

The Commonwealth's annual OPEB cost and the net OPEB obligation for the postemployment healthcare benefits plans as of and for the year ended June 30, 2012 were as follows (expressed in thousands):

	ERS MIPC	JRS MIPC	TRS MIPC	Total
Annual OPEB cost:				
ARC	$ 133,654	$ 554	$ 41,069	$ 175,277
Interest on net OPEB obligation	5,230	29	1,738	6,997
Adjustment to annual required contribution	(8,180)	(53)	(1,845)	(10,078)
Annual OPEB cost	130,704	530	40,962	172,196
Statutory sponsor's contributions made	(94,688)	(312)	(36,870)	(131,870)
Increase in net OPEB obligation	36,016	218	4,092	40,326
Net OPEB obligation at beginning of year	130,741	729	43,448	174,918
Net OPEB obligation at year end	$ 166,757	$ 947	$ 47,540	$ 215,244

The net OPEB obligation for ERS MIPC, JRS MIPC, and TRS MIPC totaling $215 million is recorded in the accompanying statement of net assets (deficit).

(d) Actuarial Assumptions

Actuarial valuations of an ongoing plan involve estimates of the net value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continuous revision as actual results are compared with past expectations and new estimates are made about the future.

	ERS MIPC	JRS MIPC	TRS MIPC
Date of latest actuarial valuation	June 30, 2012	June 30, 2012	June 30, 2012
Actuarial-cost method	Projected unit credit cost method with straight proration based on service to decrement	Projected unit credit cost method with straight proration based on service to decrement	Entry age normal
Amortization method	30 years closed, level dollar	30 years closed, level percentage of payroll	30 years closed, level percentage of payroll
Discount rate	3.2 %	3.2 %	3.2 %
Projected payroll growth	- %	3 %	- %
Projected salary increases	- %	- %	3.5% general wage inflation plus a service based merit increase
Inflation	- %	- %	2.5 %
Remaining amortization period	26 years	15 years	26 years
Amortization approach	Closed	Closed	Closed

The ERS MIPC, JRS MIPC, and TRS MIPC statutory contributions as a percentage of the required contribution for the current year and each of the two preceding years are as follows:

	ERS MIPC	JRS MIPC	TRS MIPC
Year ended June 30, 2012	70.85 %	56.32 %	89.78 %
Year ended June 30, 2011	72.29	58.64	79.04
Year ended June 30, 2010	66.61	60.41	66.91

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projections of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The actuarial calculations reflect a long–term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short–term volatility in actuarial accrued liabilities and actuarial value of assets.

(e) Three Year Trend Information

The three year trend information is as follows (dollars expressed in thousands):

	ERS MIPC	JRS MIPC	TRS MIPC
Annual OPEB cost:			
Year ended June 30, 2012	$ 130,704	$ 530	$ 40,962
Year ended June 30, 2011	127,336	513	39,891
Year ended June 30, 2010	127,189	479	42,495
Percentage of annual OPEB cost contributed:			
Year ended June 30, 2012	72.4 %	58.9 %	90.0 %
Year ended June 30, 2011	73.4	60.4	79.1
Year ended June 30, 2010	67.0	61.5	66.9
Net OPEB obligation:			
Year ended June 30, 2012	$ 166,757	$ 947	$ 47,540
Year ended June 30, 2011	130,741	729	43,448
Year ended June 30, 2010	96,946	526	35,115

(f) Funded Status

Funded status of the postemployment healthcare benefit plans as of June 30, 2012, the most recent actuarial valuation date, is as follows (expressed in thousands):

	ERS MIPC	JRS MIPC	TRS MIPC	Total
Actuarial accrued liability (AAL)	$ 2,120,970	$ 6,592	$ 797,332	$ 2,924,894
Actuarial value of assets	-	-	-	-
Unfunded actuarial accrued liability	$ 2,120,970	$ 6,592	$ 797,332	$ 2,924,894
Funded ratio	- %	- %	- %	- %
Covered payroll	$ 3,570,339	$ 33,066	$ 1,292,975	$ 4,896,380
Unfunded actuarial accrued liability as a percentage of covered payroll	59.4 %	19.9 %	61.7 %	59.7 %

The schedule of funding progress presented as required supplementary information following the notes to the basic financial statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

22. DEBT SERVICE DEPOSIT AGREEMENTS

On May 26, 2005 (but effective on July 1, 2005), the Commonwealth, PFC, and GDB (together the Commonwealth) and Lehman Brothers Special Financing Inc. (Lehman) entered into Debt Service Deposit Agreements (DSD Agreements), the objective of which was for the Commonwealth to secure an upfront payment in exchange for granting Lehman the rights to earnings generated from eight of its debt service funds. On September 25, 2008, as a result of Lehman commencing a case in the United States Bankruptcy Court for the Southern District of New York under chapter 11 of the United States Code,

Lehman selected Hexagon Securities LLC to act as the Qualified Dealer under the DSD Agreements and delivered Qualified Securities as permitted under the DSD Agreement. Seven of the funds are associated with the Commonwealth's PFC bonds, presented in the accompanying basic financial statements as Commonwealth appropriation bonds, and one fund is associated with the Commonwealth's general obligation bonds. The upfront payment, which amounted to $82.7 million, was received on May 26, 2005 and equaled the present value of the projected earnings income adjusted for credit timing risks as well as an appropriate amount of compensation for Lehman.

With the upfront payment made as explained above, the Commonwealth delivered to Lehman the required and scheduled debt service deposits and Lehman delivered qualified government debentures, which will mature before the next debt service payment date at an amount approximating such next debt service payment. Lehman will attempt to earn sufficient funds on the debt service deposit amounts, less its cost for the qualified government debentures, to make back the $82.7 million over time. At the same time, the Commonwealth will be managing its borrowings and investments by increasing the predictability of its cash flows from earnings on its investments and not for purpose of speculation. The Commonwealth acknowledges that, in exchange for the upfront payment received, it is foregoing its right to receive investment earnings on the deposit amounts referred to above in the future and that, by accepting the upfront payment, the Commonwealth has minimized the risks resulting from fluctuations in interest rates during the term of the DSD Agreements but also has foregone the possibility of receiving greater returns on such amounts from such fluctuations.

Under the DSD Agreements, the Commonwealth will be exposed to the payment to Lehman of a Termination Amount, as defined in the agreement, principally upon the occurrence of redemption or a defeasance of the related bonds on or prior to the last scheduled deposit date. The amount of the Termination Amount will vary depending on various market conditions, as defined in the DSD Agreements. Under certain market conditions, the Termination Amount owed to Lehman by the Commonwealth may exceed the amount of the original upfront payment received.

The $82.7 million upfront payment received by the Commonwealth was recognized as other revenue for budgetary purposes in 2005; however, under US GAAP, such upfront payment was deferred and is being recognized proportionally over the future periods the Commonwealth would have otherwise earned such interest earnings. Unamortized balance amounted to approximately $40.1 million at June 30, 2012. During fiscal year 2012, approximately $5.5 million was amortized into other revenue in the accompanying statement of activities.

23. DERIVATIVE INSTRUMENTS

The fair values and notional amounts of derivative instruments outstanding at June 30, 2012, classified by type, and the changes in fair value of such derivative instruments for the fiscal year then ended as reported in the 2012 basic financial statements are as follows (in thousands):

			Changes in Fair Value (1)		Fair Value at June 30, 2012 (2)			
Item			Classification	Amount	Classification	Amount		Notional
Governmental activities								
Cash flow hedges:								
1	Pay-fixed interest rate swap	(4)	Deferred Outflow	$(10,993)	Liability	$(49,228)	(5)	$ 233,615
2	Pay-fixed interest rate swap		Deferred Outflow	(1,393)	Liability	(2,497)		32,815
3	Pay-fixed interest rate swap		Deferred Outflow	(1,218)	Liability	(2,342)		32,625
4	Pay-fixed interest rate swap		Deferred Outflow	(1,089)	Liability	(2,102)		31,280
5	Pay-fixed interest rate swap		Deferred Outflow	(938)	Liability	(1,879)		30,005
6	Pay-fixed interest rate swap	(4)	Deferred Outflow	(2,095)	Liability	(4,101)	(5)	14,925
7	Pay-fixed interest rate swap	(4)	Deferred Outflow	(2,094)	Liability	(4,098)	(5)	14,915
8	Pay-fixed interest rate swap	(3)	Deferred Outflow	(49,298)	Liability	(86,520)		136,000
Investment derivative instruments:								
9	Pay-fixed interest rate swap	(4)	Investment Revenue	(11,904)	Liability	(27,037)	(5)	114,071
10	Pay-fixed interest rate swap	(4)	Investment Revenue	(9,030)	Liability	(20,391)	(5)	83,314
11	Basis Swap		Investment Revenue	15,595	Liability	(18,325)	(5)	1,273,778
12	Basis Swap		Investment Revenue	5,366	Liability	(6,454)	(5)	424,592

(1) Positive (negative) values represent a decrease (an increase) in the liability's fair value.
(2) Negative values indicate that the Commonwealth is in a payable position. The fair value excludes the accrued interest receivable or payable at year-end.
(3) Derivative instrument corresponds to COFINA.
(4) Insured swap.
(5) Amortizing swap. The notional amount of the swap matches the principal amount of the associated debt. The swap agreement contains scheduled reductions to the notional amount that matches scheduled reductions in the associated debt outstanding principal balance.

The fair values of the pay-fixed interest rate swaps and the basis swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swaps.

Accrued interest payable on swaps are presented separately from the fair values of the swaps in the Commonwealth's government-wide statement of net assets and in the governmental funds- balance sheet and amounted to $8.1 million at June 30, 2012.

The following table shows the derivative instruments position by counterparty at June 30, 2012 (in thousands):

	Total	
Counterparty/Swap	Notional Amount	Fair Value
Goldman Sachs Capital Markets	$1,409,777	$ (104,845)
Morgan Stanley Capital Services Inc.	581,158	(23,473)
Bank of New York	233,615	(49,228)
DEPFA BANK plc	114,071	(27,037)
Merrill Lynch Capital Services, Inc.	83,314	(20,391)
Total	$2,421,935	$ (224,974)

Hedging Derivative Instruments

The following table displays the objective and terms of the Commonwealth's hedging derivative instruments outstanding at June 30, 2012, along with the credit rating of the associated counterparty (amounts in thousands):

Item	Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms: Pays	Terms: Receives	Counterparty Credit Rating Moody's/S&P
1	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2003 Series C-5-1 and C-5-2 bonds	$233,615	7/1/2008	7/1/2021	3.7658 %	67% 1M LIBOR	Aa1/AA-
2	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2006 Series A bonds	32,815	8/10/2006	7/1/2021	4.2000	CPI+0.90%	Baa1/A-
3	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2006 Series A bonds	32,625	8/10/2006	7/1/2020	4.3200	CPI+1.02%	Baa1/A-
4	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2006 Series A bonds	31,280	8/10/2006	7/1/2019	4.2900	CPI+1.00%	Baa1/A-
5	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2006 Series A bonds	30,005	8/10/2006	7/1/2018	4.2600	CPI+0.98%	Baa1/A-
6	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2007 Series A3 bonds	14,925	10/16/2007	7/1/2029	3.5180	66% 1M LIBOR	Baa1/A-
7	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2007 Series A2 bonds	14,915	10/16/2007	7/1/2029	3.5180	66% 1M LIBOR	Baa1/A-
8	Pay-fixed interest rate swap	Hedge of changes in cash flows on the COFINA 2007 Series A bonds	136,000	7/31/2007	8/1/2057	4.9200	67% 3M LIBOR +0.93%	A2/A-

LIBOR: London Interbank Offered Rate Index
CPI: Consumer Price Index

For derivative instruments No. 2, 3, 4, and 5, the floating interest rate, CPI plus a spread (the rate to receive), is capped to the maximum rate permitted by Commonwealth law (12% as of June 30, 2012). This cap is equal to the cap in the hedged bond. Other swaps do not have significant embedded options.

During the year ended June 30, 2012, the Commonwealth terminated various hedging derivative instruments with an aggregate notional amount of $437.1 million in connection with refunding resulting in the defeasance of the hedged debt in April, 2012. The balance of the deferred outflows of resources at such date of $95.7 million was included in the net carrying amount of the old debt for purposes of calculating the gain/loss on the refunding.

Investment Derivative Instruments — The following table displays the terms of the Commonwealth's investment derivative instruments outstanding at June 30, 2012, along with the credit rating of the associated counterparty (amounts in thousands):

Item	Type	Notional Amount	Effective Date	Maturity Date	Terms Pays	Receives	Counterparty Credit Rating Moody's/S&P
9	Pay-fixed interest rate swap	$ 114,071	7/1/2008	7/1/2024	3.6815 %	67% 1M LIBOR	Baa3/BBB
10	Pay-fixed interest rate swap	83,314	7/1/2008	7/1/2024	3.6815 %	67% 1M LIBOR	Baa2/A-
11	Basis Swap	1,273,778	7/1/2006	7/1/2035	SIFMA	67% 3M LIBOR + 0.4409	A2/A
12	Basis Swap	424,592	7/5/2007	7/1/2035	SIFMA	67% 3M LIBOR + 0.4409	Baa1/A-

None of the investment derivative instruments has significant embedded options.

The Commonwealth entered into the basis swaps (derivative instruments No. 11 and 12) to economically hedge the portion of the fair value of the underlying liabilities attributable to the relative value/basis risk between tax-exempt and taxable rates, which can be expressed as a ratio. At June 30, 2012, management of the Commonwealth concluded that these basis swaps were not considered as effective hedging instruments under GASB Statement No. 53.

During the year ended June 30, 2012, the Commonwealth and COFINA terminated various investment derivative instruments with notional amount of $69.2 million and $907.0 million, respectively, and paid $21.4 million and $390.6 million, respectively, to terminate the swaps.

Risks on Derivative Instruments:

Credit or Counterparty Risk — The Commonwealth is exposed to credit risk on derivative instruments that are in asset positions. When the fair value of a derivative contract is positive, the counterparty owes the Commonwealth, which creates a credit risk for the Commonwealth. If the counterparty were to default under its agreement when the counterparty owes a termination payment to the Commonwealth, the Commonwealth may have to pay another entity to assume the position of the defaulting counterparty. When the fair value of the derivative contract is negative, the Commonwealth owes to the counterparty and, therefore, does not pose credit risk to the Commonwealth.

The Commonwealth has sought to limit credit risk by contracting only with highly rated entities or requiring guarantees of the counterparty's obligations under the swap agreements. In addition, to minimize its exposure to loss related to credit risk, it is the Commonwealth's policy to require counterparty collateral posting provisions on its derivative agreements. These terms require collateralization of the fair value of the derivative instruments in asset position (net of the effect of applicable netting arrangements) in excess of certain agreed upon thresholds which range from $20.0 million to zero (full collateralization) should the credit rating of the counterparty falls a specified rating. Collateral posted is to be in the form of cash, U.S. Treasury securities, or specified agency securities. The Commonwealth has never failed to access collateral when required.

It is the Commonwealth's policy to enter into netting arrangements whenever it has entered into more than one derivative instrument transaction with a counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, closeout netting provisions permit the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the non-defaulting party.

At June 30, 2012, none of the derivative instruments was in an asset position. Thus, the Commonwealth did not have aggregate counterparty credit exposure or netting arrangements as of that date.

Interest Rate Risk — The Commonwealth is exposed to interest rate risk on its swaps. On its pay-fixed, receive-variable interest rate swaps, as LIBOR or the Consumer Price Index (CPI) decreases, the Commonwealth's net payment on the swap increases. Additionally, as long-term LIBOR and CPI rates decrease, the fair values of the derivative instruments in liability positions increase. On its basis swaps, as LIBOR decreases and/or SIFMA trades as a higher percentage of LIBOR, the Commonwealth's net payment on the basis swap increases. Additionally, as long-term LIBOR rates increase and/or long-term SIFMA/LIBOR ratios increase, the fair values of the basis swaps in liability positions decrease.

Basis Risk — The Commonwealth is exposed to basis risk on some of its pay-fixed interest rate swaps where the variable-rate payments received by the Commonwealth on the derivative and the rate paid on the hedged variable-rate debt are based on different reference rates or indexes.

Termination Risk — The Commonwealth or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. The Commonwealth is at risk that the counterparty will terminate a swap at a time when the Commonwealth owes a termination payment to the counterparty. The Commonwealth has mitigated this risk by specifying that the counterparty has the right to terminate only as a result of certain events, including: a payment default by the Commonwealth; other Commonwealth defaults which remain uncured for 30 days after notice; Commonwealth bankruptcy; insolvency of the Commonwealth (or similar events); or a downgrade of the Commonwealth's credit rating below Ba1 as issued by Moody's Investor Service or BB+ by Standard & Poor's for the majority of the derivative instruments. On the COFINA's derivative instrument No. 8, COFINA has mitigated this risk by specifying that the counterparty has the right to terminate only as a result of certain events, including: a payment default by COFINA; insolvency of COFINA (or similar events); or a downgrade of COFINA's credit rating below Baa1 by Moody's Investor Service or BBB+ by Standard & Poor's). The derivative instruments that are insured by Assured Guaranty Municipal Corp. (derivative instruments No. 1, 6 and 7) may not be terminated by the counterparty unless an Insurer Event has occurred (i.e., Insurer's credit rating falls below A3 by Moody's Investor Service or A- by Standard & Poor's) and the Commonwealth's credit ratings are downgraded below Ba1 as issued by Moody's Investor Service or BB+ by Standard & Poor's. If at the time of termination, a derivative instrument is in a liability position, the Commonwealth would be liable to the counterparty for a payment equal to the liability's value as determined in accordance with the swap agreement provisions, subject to netting arrangements.

Rollover Risk — The Commonwealth is exposed to rollover risk on hedging derivative instruments that mature prior to the maturity of the hedged debt, thus re-exposing the Commonwealth to the risk being hedged. None of the Commonwealth's derivative instruments matures prior to the maturity of the hedged debt.

Collateral Posting Requirements and Contingencies — All of the Commonwealth's derivative instruments, except for the Commonwealth 's derivative instruments that are insured by Assured Guaranty Municipal Corp. (derivative instruments No. 1, 6 and 7) and the COFINA's derivative instrument No. 8, include provisions that require the Commonwealth to post collateral in excess of

certain agreed upon thresholds (that range from $30.0 million to $50.0 million) when its credit rating falls below Baa1 (Moody's Investor Service) or BBB+ (Standard & Poor's). If the Commonwealth's credit rating falls below Baa3 (Moody's Investor Service) or BBB- (Standard & Poor's), it is required to post collateral of 100% of their payable positions. The collateral posted is to be in the form of cash, U.S. Treasury securities, or specified agency securities for derivative instruments in liability positions, net of the effect of applicable netting arrangements and thresholds. If the Commonwealth does not post collateral, the derivative instrument may be terminated by the counterparty.

At June 30, 2012, the aggregate fair value of the Commonwealth's derivative instruments with these collateral posting provisions was a liability position of $82.1 million. The Commonwealth's credit rating as of June 30, 2012 was Baa1 (Moody's Investor Service) and BBB (Standard & Poor's). Since the aggregate fair value of these derivative instruments was below the established threshold with each of the counterparties, the Commonwealth was not required to post collateral as of June 30, 2012.

At June 30, 2012, no collateral posting requirement applied to the COFINA's derivative instrument.

24. FUND BALANCE (DEFICIT)

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* the classification of Fund Balance is based on the extent to which the Commonwealth is bound to observe constraints imposed upon the use of resources in the governmental funds. The classifications are as follows:

Nonspendable — includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints requiring such amounts to remain intact.

Restricted — includes fund balance amounts that are constrained for specific purposes which are externally imposed by creditors (such as through debt covenants), laws or regulations of other governments, or constrained due to constitutional provisions or enabling legislation.

Committed — includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government's formal action at the highest level of decision making authority and does not lapse at year-end. The highest level of decision authority for the Commonwealth is the Legislature and the Governor.

In accordance with the Commonwealth's Constitution, the Governor is required to submit to the Legislature an annual balanced budget of the Commonwealth for the ensuing fiscal year. The Legislature may amend the budget submitted by the Governor but may not increase any items so as to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. Upon passage by the Legislature, the budget is referred to the Governor who may decrease or eliminate any line item but may not increase or insert any new line item in the budget. The Governor may also veto the budget in its entirety and return it to the Legislature with his objections. The Legislature, by two thirds majority in each house, may override the Governor's veto. If a budget is not adopted prior to the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Legislature and the Governor, is automatically renewed for the ensuing fiscal year until a new budget is approved by the Legislature and the Governor. The Office of Management and Budget, which respond to the Governor as part of the Commonwealth's Executive Branch, has authority to amend the budget within a department, agency, or government unit without legislative approval.

Assigned — includes fund balance amounts that are constrained by the Commonwealth Legislature and the Governor and are intended to be used for specific purposes that are neither considered restricted or committed.

Unassigned — is the residual classification for the General Fund. In a governmental fund other than the General Fund, a negative amount indicates that the expenditures incurred for a specific purpose exceeded the amounts in the fund that are restricted, committed and assigned to that purpose.

The Commonwealth uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available, unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, unless required by law or agreement, the Commonwealth would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Commonwealth does not have a formal minimum fund balance policy.

Below is the detail included in the fund balance (deficit) classifications for the governmental funds at June 30, 2012 (expressed in thousands):

	General	Debt Service	COFINA Special Revenue	COFINA Debt Service	Other Governmental	Total Governmental
Nonspendable:						
Minimum fund balance for natural resource preservation	$ 5,000	$ -	$ -	$ -	$ -	$ 5,000
Other assets	10,591	-	-	-	-	10,591
Education	1,374	-	-	-	-	1,374
Public housing and welfare	77,594	-	-	-	-	77,594
Subtotal	94,559	-	-	-	-	94,559
Spendable:						
Restricted for:						
Debt service	-	335,614	-	713,792	150,672	1,200,078
Special revenue	-	-	57,031	-	-	57,031
Public housing and welfare	8,700	-	-	-	-	8,700
Capital project	53,043	-	-	-	848,453	901,496
Education	30,890	-	-	-	-	30,890
Other purposes	88,500	-	-	-	-	88,500
Subtotal	181,133	335,614	57,031	713,792	999,125	2,286,695
Committed to:						
General Fund	589,890	-	-	-	-	589,890
Debt service	-	274,829	-	-	-	274,829
Special revenue	-	-	-	-	35,922	35,922
Public housing and welfare	42,329	-	-	-	-	42,329
Education	1,440	-	-	-	-	1,440
Subtotal	633,659	274,829	-	-	35,922	944,410
Assigned to:						
Education	22,056	-	-	-	-	22,056
Special revenue	-	-	-	-	165,742	165,742
Subtotal	22,056	-	-	-	165,742	187,798
Unassigned	(2,037,963)	-	-	-	1,608	(2,036,355)
Total fund balance (deficit)	$(1,106,556)	$610,443	$57,031	$713,792	$1,202,397	$ 1,477,107

25. SUBSEQUENT EVENTS

Subsequent events were evaluated through September 16, 2013, the date the basic financial statements of the Commonwealth were available to be issued, to determine if any such events should either be recognized or disclosed in the 2012 basic financial statements**.**

Primary Government — On July 2, 2012, the Commonwealth issued Public Improvement Refinancing Notes, Series 2012 B-1 for $384,495,980 (the "Notes") to GDB for the purpose of providing funds to make the required monthly principal deposits on certain outstanding public improvement and public improvement refunding bond issues of the Commonwealth, until such time as refunding bonds may be issued. The Notes mature on June 30, 2042 and bear interest, payable in arrears, at a rate of interest per annum equal to the Prime Rate plus 150 basis points, but in no event shall such rate be less than 6% per annum nor greater than 12% per annum. The Notes shall be payable in annual installments, equal to 1/30th of the principal amount outstanding plus accrued interest to the payment date on each June 30 commencing on June 30, 2013. The good faith, credit and taxing power of the Commonwealth are pledged to the payment of the principal of and interest on the Notes. On June 30 2013, the Commonwealth and GDB amended the loan agreement to change the payment dates in order to permit additional time for the Commonwealth to issue the public improvement refunding bonds. Under the terms of the amended loan agreement, the principal of the Notes is payable in equal annual installments, based on a 30-year amortization schedule, plus accrued interest to the payment date, on each June 30, commencing on June 30, 2014, with the balance of the principal of, plus all accrued and unpaid interest on, the Notes due and payable on June 30, 2042.

On July 13, 2012, the Department of the Treasury transferred $35 million to PBA related to the fourth payment of rent in arrears from agencies of the Commonwealth due before June 30, 2011.

On July 18, 2012, Moody's Investors Service (Moody's) downgraded COFINA's outstanding senior sales tax revenue bonds from Aa2 to Aa3 and the outstanding subordinate sales tax revenue bonds from A1 to A3. The ratings reflect only the opinions of such rating agency and an explanation of the significance of such ratings may be obtained only from the relevant rating agency.

On July 19, 2012, the Commonwealth issued Public Improvement Refinancing Notes, Series 2012 C-1 for $215,936,841 (the "Notes") to GDB for the purpose of providing funds to make the required monthly interest deposits on certain outstanding public improvement and public improvement refunding bonds of the Commonwealth, until such time as refunding bonds may be issued. The Notes shall mature on June 30, 2042 and bear interest, payable in arrears, at a rate of interest per annum equal to the Prime Rate plus 150 basis points, but in no event shall such rate be less than 6% per annum nor greater than 12% per annum. The Notes shall be payable in annual installments, equal to 1/30th of the principal amount outstanding plus accrued interest to the payment date on each June 30 commencing on June 30, 2013. The good faith, credit and taxing power of the Commonwealth are pledged to the payment of the principal of and interest on the Notes. On June 30 2013, the Commonwealth and GDB amended the loan agreement to change the payment dates in order to permit additional time for the Commonwealth to issue the public improvement refunding bonds. Under the terms of the amended loan agreement, the principal of the Notes is payable in equal annual installments, based on a 30-year amortization schedule, plus accrued interest to the payment date, on each June 30, commencing on June 30, 2014, with the balance of the principal of, plus all accrued and unpaid interest on, the Notes due and payable on June 30, 2042.

On July 20 2012, PBA obtained a loan from GDB in the amount of $175 million for the purpose of paying all or any portion of the principal and interest components of certain outstanding revenue and revenue refunding bonds of PBA coming due during the twelve months after the first drawing. The loan

shall mature and be due and payable on June 30, 2013. Each drawing shall bear interest daily from the date such drawing is made until its repayment at a rate of interest per annum equal to GDB's "all inclusive" cost of funding plus a spread of 150 basis points, such rate not to be less than 6% per annum. On June 24, 2013, PBA and GDB amended the loan agreement to extend the maturity date of the loan up to December 31, 2013.

In October 2012, the Commonwealth entered into a novation transaction whereby it transferred its obligation for $424.6 million notional amount under a basis swap to a third party at no cost.

On December 13, 2012, Moody's downgraded its rating on the general obligation bonds of the Commonwealth from "Baa1" to "Baa3" with a negative outlook. On March 13, 2013, Standard & Poor's Rating Services (S&P) downgraded its rating on such bonds from "BBB" to "BBB-" with a negative outlook; and on March 20, 2013, Fitch, Inc. (Fitch) downgraded its rating on the Commonwealth's general obligation and appropriation debt from "BBB+" to "BBB-" with a negative outlook. The ratings reflect only the opinions of such rating agencies and an explanation of the significance of such ratings may be obtained only from the relevant rating agency.

On December 13, 2012, Moody's downgraded its rating on PBA's bonds from "Baa1" to "Baa3" with a negative outlook.

On April 30, 2013, COFINA issued its Bond Anticipation Notes, Series 2013A, amounting to approximately $333.3 million. The Series 2013A notes bear interest at 1.95% and mature on September 30, 2014. The proceeds from the issuance of these notes were used to complete the funding of the Commonwealth's operating budget deficit for fiscal year 2013.

On May 7, 2013, a group of governmental employees that worked on the PBA's central offices in Minillas since 1984 up to May 2012, filed a lawsuit claiming damages suffered during the years working at such offices, caused by the existence of asbestos in the building. The employees are claiming a total of $300 million of which $100 million would be used to create a medical program to monitor health conditions on all of these employees and $200 million to be paid to them for damages. This case is in its initial stages, therefore no provision for any liability that may result upon adjudication of this lawsuit has been recorded by the Commonwealth.

In May 2013, the Commonwealth entered into a $256 million and $320 million line of credit agreement with GDB to cover required deposits of interest and principal, respectively, on the Commonwealth's 2014 debt service. The line of credit agreements mature on June 30, 2043.

On June 30, 2013, the Commonwealth enacted Acts No. 40 through No. 48 (also known as the Comprehensive Tax Reform Acts), which amended the following Acts, Regulations and Codes: 1) the Puerto Rico Insurance Code under Act No. 77 of June 19, 1957, as amended, 2) the Property Tax Act under Act No. 83 of 1991, 3) the Savings and Loans Cooperatives Act under Act No. 255 of 2002, as amended, 4) the Puerto Rico Sales Tax Financing Corporation (COFINA) Act under Act No. 91 of 2006, 5) several articles of Act No. 1 of 2011 (also known as the Internal Revenue Code for a New Puerto Rico), 6) the Fiscal Reform Act of 2006 under Act No. 103 of 2006, 7) Act No. 164 of 2001, and 8) Act No. 221 of May 15, 1948. All these amendments are designed to achieve, among other things, an expansion of the revenue base of the general fund of the Commonwealth, and are expected to bring additional and consistent tax revenue. These revenue enhancing measures, along with other cost cutting plans, are intended to address the structural deficit of the Commonwealth, add new revenues to the general fund that would serve as a catalyst for economic growth and protect and strengthen the credit rating of the Commonwealth and its principal component units. The aforementioned amendments involve, among other changes, increases in the excise taxes on cigarettes' imports (Act No. 41); the

establishment of a new national “volume of business” tax ranging between 0.2% to a maximum of .85% (1% for financial institutions) on the gross sales/revenue to businesses with a volume of sales/revenue exceeding $1 million (Act No. 40); the imposition of the sales and use taxes to certain business to business transactions, as defined, previously excluded, and other procedural changes (Acts No’s. 40 and 42); additional limitations on certain deductions and credits that were formerly available on the tax returns of individuals (Act No. 40); increase in the corporate tax rates from 30% to 39% coupled with a reduction in the surtax exemption base from $750,000 to $25,000 (Act No. 40); increases in the escalating tax rates applicable for the alternative minimum tax determination on individuals and corporations (Act No. 40); a new surtax of 2% applicable to self-employed individuals with over $200,000 in gross income as defined (Act No. 40); a special contribution of 1.5% imposed on payments made for professional and consulting services rendered to a governmental entity (Act No. 48); and increases in the share of slot machines in casinos and the restructuring of the manner in which their profits are distributed (Act No. 48). Some of these Acts also assigned funds for the enhancing and strengthening of the sales and use tax collection process (Act No. 46); created the 2013–2014 Budgetary Support Fund to be nourished with $96.5 million to be provided from transfers of excess cash from other funds, mostly coming from the Department of Education and the State Insurance Fund Corporation (Act No. 43); and the creation of a $245 million Fiscal Reconstruction Fund to be contributed by GDB for deficit financing (Act No. 45). The Fiscal Reconstruction Fund will be nourished with a $245 million loan to be structured by GDB using either its own funds or third party financing, in its capacity as the Commonwealth’s fiscal agent. The loan, which will be evidenced by bonds and notes, will constitute an obligation of the Commonwealth, whose good faith, credit, and taxing power will be irrevocably pledged for the prompt payment of the principal of and interests on the bonds/notes. The $245 million to be deposited in the Fiscal Reconstruction Fund will be assigned to the Municipal Revenue Collection Center (CRIM).

The Fiscal Reform Act of 2006 (Act. No. 103 of May 25, 2006) prohibited the use of debts, loans, or any financing mechanism to cover operational expenses and/or balance the Commonwealth’s general budget. Acts No. 2, 95, 130, and 44 of 2009, 2011, 2012, and 2013, respectively, suspended the provisions of Act. No. 103 of May 25, 2006 through June 30, 2011, 2013, 2014 and 2015, respectively.

Act No. 47 of June 30, 2013 authorizes the Secretary of the Treasury to issue public improvement bonds in an amount no to exceed $100 million. It also authorized the Secretary of the Treasury to issue, in anticipation of the bond issuance, bond anticipation notes. The bonds and notes will constitute an obligation of the Commonwealth, whose good faith, credit, and taxing power will be irrevocably pledged for the prompt payment of the principal of and interest on the bonds and notes.

On June 21, 2013, the Commonwealth entered into a $98 million line of credit agreement with GDB for working capital purposes. The line of credit bears interest at prime rate plus 150 basis points with a floor of 6% and a cap of 12%, and matures on November 1, 2013, as amended.

On July 1, 2013, the Commonwealth issued Tax and Revenue Anticipation Note Series A (2014) for $300,000,000 (the “Note”) to GDB for the purpose of providing funds to pay the general fund appropriations made for fiscal year 2014 in anticipation of the receipt of taxes and revenues required to be deposited in the general fund and estimated in the budget of the Commonwealth to be realized in cash during fiscal year 2014. The Note bears interest at a rate equal to the greater of (i) the rate of interest determined from time to time by GDB as its prime rate plus 150 basis points or (ii) 6.0%, and shall mature and be due and payable on July 30, 2014. The good faith, credit and taxing power of the Commonwealth are not pledged to the payment of the principal of and interest on this Note.

On July 2, 2013, the Commonwealth issued Public Improvement Refinancing Note of 2013, Series B for $319,645,474 (the “Note”) to GDB for the purpose of providing funds to make during fiscal year 2014

the monthly principal deposits in respect and thereby refinance the principal component of certain outstanding public improvement and public improvement refunding bond issues of the Commonwealth. The Note bears interest at a rate of interest per annum equal to the prime rate as determined and announced by GDB from time to time plus 150 basis points. No such rate of interest per annum shall be in excess of 12% or be less than 6% per annum. The Note shall mature and be due and payable on June 30, 2043. The good faith, credit and taxing power of the Commonwealth are pledged to the payment of the principal of and interest on the Note.

On July 16, 2013, the Commonwealth issued Public Improvement Refinancing Note of 2013, Series A for $255,755,568 (the "Note") to GDB for the purpose of providing funds to make during fiscal year 2014 the monthly interest deposits in respect and thereby refinance the interest component of certain outstanding public improvement and public improvement refunding bond issues of the Commonwealth. The Note bears interest at a rate of interest per annum equal to the prime rate as determined and announced by GDB from time to time plus 150 basis points. No such rate of interest per annum shall be in excess of 12% or be less than 6% per annum. The Note shall mature and be due and payable on June 30, 2043. The good faith, credit and taxing power of the Commonwealth are pledged to the payment of the principal of and interest on the Note.

On July 16, 2013, the Commonwealth issued Tax and Revenue Anticipation Note Series B (2014) for $100,000,000 (the "Note") to Oriental Bank for the purpose of providing resources which are necessary to meet the appropriations in the fiscal year 2014 annual budget in anticipation of the receipt of taxes and revenues. The Note bears interest at a rate of Base LIBOR plus the applicable margin, as defined, and shall mature and be due and payable on June 30, 2014. The good faith, credit and taxing power of the Commonwealth are not pledged to the payment of the principal of and interest on this Note.

On July 23, 2013, the Commonwealth issued Tax and Revenue Anticipation Note Series C (2014) for $100,000,000 (the "Note") to Banco Popular de Puerto Rico for the purpose of providing resources which are necessary to meet the appropriations in the fiscal year 2014 annual budget in anticipation of the receipt of taxes and revenues. The Note bears interest at a rate of Base LIBOR plus the applicable margin, as defined, and shall mature and be due and payable on June 30, 2014. The good faith, credit and taxing power of the Commonwealth are not pledged to the payment of the principal of and interest on this Note.

On July 23, 2013, the Commonwealth sold, in a private placement, $104,700,000 of Public Improvement Refinancing Notes, Series 2013 A (the "Notes"). The Notes will have a maturity date of December 1, 2013 and bear interest at a per annum interest rate equal to the sum of LIBOR and 2.50%.

On August 12, 2013, the Commonwealth sold, in a private placement, $210,300,000 of Public Improvement Refinancing Notes, Series 2013 B (the "Refinancing Notes") and $85,000,000 Commonwealth's Bond Anticipation Notes, Series 2013 A (the "BANs and together with the Refinancing Notes, the "Notes"). The Notes will have a maturity date of December 1, 2013 and bear interest at a per annum interest rate equal to the sum of LIBOR and 2.5%.

On August 13, 2013, the Commonwealth issued Tax and Revenue Anticipation Note Series D (2014) for $200,000,000 (the "Note") to Banco Santander Puerto Rico for the purpose of providing resources which are necessary to meet the appropriations in the fiscal year 2014 annual budget in anticipation of the receipt of taxes and revenues. The Note bears interest at a rate of Base LIBOR plus the applicable margin, as defined, and shall mature and be due and payable on June 30, 2014. The good faith, credit and taxing power of the Commonwealth are not pledged to the payment of the principal of and interest on this Note.

On August 22, 2013, the Commonwealth issued Tax and Revenue Anticipation Note Series E (2014) for $200,000,000 (the "Note") to JP Morgan Chase Bank, National Association for the purpose of providing resources which are necessary to meet the appropriations in the fiscal year 2014 annual budget in anticipation of the receipt of taxes and revenues. The Note bears interest at a fixed interest rate equal to 3.25% multiplied by a margin rate factor, as defined, and shall mature and be due and payable on June 30, 2014. The good faith, credit and taxing power of the Commonwealth are not pledged to the payment of the principal of and interest on this Note.

On September 12, 2013, the Commonwealth issued Tax and Revenue Anticipation Note Series F (2014) for $100,000,000 (the "Note") to Scotiabank of Puerto Rico for the purpose of providing funds to pay the general fund appropriations made for fiscal year 2014 in anticipation of the receipt of taxes and revenues that would otherwise be required to be deposited in the general fund and estimated in the budget of the Commonwealth to be realized in cash during fiscal year 2014. The Note bears interest at a fixed rate equal to 3% per annum, and shall be due and payable on June 30, 2014. Upon the failure of the Commonwealth to maintain a rating on its general obligation debt of at least investment grade by each of the rating agencies, the Note shall bear interest at a fixed interest rate equal to 6% per annum. The good faith, credit, and taxing power of the Commonwealth are not pledged to the payment of the principal of and interest on the Note.

Component Units:

(a) GDB

On December 13, 2012, Moody's downgraded GDB's Senior Notes from Baa1 to Baa3 and Puerto Rico Public Finance Corporation (PRPFC), a blended component unit of GDB, Commonwealth Appropriation Bonds from Baa2 to Ba1 with a negative outlook. The ratings reflect only the opinions of such rating agency and an explanation of the significance of such ratings may be obtained only from the relevant rating agency.

Act No. 45 of June 30, 2013 amended Article No. 8 of Act No. 164 of December 17, 2001 to increase the limit of GDB loans whose repayment source are Legislative appropriations not already approved or to be approved in the future by the Commonwealth's Legislature from $200 million to $245 million through June 30, 2014.

Housing Finance Authority **—** On July 24, 2012, the Housing Finance Authority issued general obligation bonds amounting to $38 million secured by mortgage-backed securities. The principal of and interest on the bonds will be payable by the Housing Finance Authority regardless of the performance of the mortgage loan collateral. The notes will carry a 5.875% annual interest rate payable monthly. The bonds are subject to a redemption schedule that ranges from 103% to 100% on or after the second throughout the fifth anniversary of the date of issuance.

On October 25, 2012, the Housing Finance Authority issued approximately $30.5 million of its special obligation notes, 2012 Series A (the "2012 Notes") at an aggregate discounted price of $15.5 million. The 2012 Notes will be collateralized by certain second mortgages originated under the Home Purchase Stimulus Program and will be repaid from collections of principal and interest of the underlying collateral. The mortgage loans will be guaranteed by the Housing Finance Authority's Act No. 87 mortgage loan insurance.

During April 2013, the Housing Finance Authority entered into the following bond defeasance transaction: Homeownership Mortgage Revenue Bonds 1998 Series A, 2000 Series A, 2001 Series A, 2001 Series B, 2001 Series C and 2003 Series A for a total amount of $99.3 million, which

includes an outstanding principal amount of $96.8 million and accumulated interest and other costs of $2.5 million.

Tourism Development Fund — In July 2012, the boards of directors of GDB and the Tourism Development Fund approved a resolution whereby, among other, GDB released the Tourism Development Fund from paying $85 million of its line of credit with GDB. In August 2013, GDB approved a line of credit to the Tourism Development Fund in order to provide funding to the Tourism Development Fund to lend the money to a private entity for the development of a hotel.

(b) PRASA

On December 13, 2012, Moody's downgraded PRASA's Commonwealth Guaranteed Bonds from Baa1 to Baa3 and Revenue Bonds from Baa2 to Ba1 with a negative outlook. The ratings reflect only the opinions of such rating agency and an explanation of the significance of such ratings may be obtained only from the relevant rating agency.

Effective July 15, 2013, PRASA revised the actual rate structure to increase operating revenues for fiscal year 2014.

On June 12, 2013, PRASA issued approximately $45.6 million of Series II of United States Department of Agriculture (USDA) Rural Development Program Bonds guaranteed by the Commonwealth of Puerto Rico. The proceeds of these bonds were used to finance the cost of acquiring and constructing improvements to PRASA's water and sewer properties, including the repayment of a portion of certain notes payable to GDB for such purpose. These bonds mature in semi-annual installments (subject to the right of prior redemption) payable January 1 and July 1 in each year, beginning January 1, 2014 and ending January 1, 2053 and bear interest payable January 1 and July 1 in each year, beginning July 1, 2013 at fixed rates that range from 2.00% to 3.50%.

On July 24, 2013, PRASA entered into a $50.0 million credit agreement with a commercial bank. The loan proceeds were used to finance certain capital improvements to the PRASA's water system and cover associated loan costs. The loan is mainly repayable from bond anticipation notes to be issued by PRASA. The loan agreement bears interest equal to LIBOR rate plus the applicable margin, as defined, with a floor of 4.25% and the interest is payable at maturity date. The applicable margin is 400 basis points or 600 basis points if the long-term credit rating of the PRASA outstanding senior bonds is downgraded below Ba1 by Moody's Investors Service and below BB+ by Standard & Poor's and Fitch Ratings. As amended on August 28, 2013, the loan matures not later than December 30, 2013. The loan is a senior debt on a parity with the PRASA's senior bonds and shall be equally and ratably secured by the pledged of the PRASA's revenues (other than that portion of the PRASA's revenues consisting of appropriations from the Commonwealth for the payment of principal and interest on the PRASA's Commonwealth Guaranteed Indebtedness and the PRASA's Commonwealth Supported Obligations.

(c) PREPA

On December 17, 2012, Moody's downgraded from Baa1 to Baa2 the rating on the Puerto Rico Electric Power Authority's (PREPA) approximately $8 billion of outstanding power revenue bonds. The rating remains under review for possible further downgrade. The rating change was based on the downgrade of the Commonwealth's general obligation rating to Baa3 with a negative outlook as well as the downgrade of entities that are based on or capped at the Commonwealth's general obligation's rating, including GDB, which is an important source of liquidity for PREPA. The

ratings reflect only the opinions of such rating agency and an explanation of the significance of such ratings may be obtained only from the relevant rating agency.

On April 25, 2013, the $500.0 million revolving line of credit with participating commercial banks for working capital purposes was amended to extend its maturity date to June 30, 2013. On June 28, 2013, this line of credit was amended to decrease its authorized amount to $450.0 million and to extend its maturity date to August 15, 2013. On August 14, 2013, this line of credit was amended to extend its maturity date to August 14, 2014, to increase its authorized amount to $550.0 million and to increase the applicable margin and applicable spread on its interest rate in case of a downgrade by Moody's Investors Service and Standard & Poor's in the long term rating of the PREPA's senior debt.

On June 21, 2013, PREPA entered into a $100.0 million revolving line of credit agreement with GDB to cover the margin calls related to its swap agreements. The line of credit matures on December 31, 2014 and bears interest at prime rate plus 200 basis points (with a cap of 12% and a floor of 6.00%), payable monthly.

On June 21, 2013, S&P downgraded its rating on PREPA's revenue bonds from "BBB+" to "BBB" with a stable outlook. This move came a day after Moody's downgraded PREPA's revenue bonds to Baa3 from Baa2, with a negative outlook. On July 1, 2013, Fitch downgraded its rating on PREPA's revenue bonds from "BBB+" to "BBB-" with a stable outlook, eliminating the previous negative watch. The ratings reflect only the opinions of such rating agencies and an explanation of the significance of such ratings may be obtained only from the relevant rating agency.

PREPA assumed $53.2 million in fuel expenses not billed to the customers from July to November 2012, which were financed by the revenue stabilization fund.

On August 15, 2013, PREPA issued $673,145,000 Puerto Rico Power Electric Authority Power Revenue Bonds, Series 2013A (the "Series 2013A Bonds"). The Series 2013A Bonds consist of $35,000,000 and $130,645,000 serial bonds maturing on July 1, 2030 and 2043, respectively, and bearing interest at 7.25% and 7%, respectively, and $150,000,000, $307,500,000 and $50,000,000 term bonds due on July 1, 2033, 2036, and 2040, respectively, and bearing interest at 7%, 6.75%, and 7%, respectively. The proceeds of the Bonds will be used to (i) finance a portion of the cost of various projects under its capital improvement program, (ii) fund a deposit to the Reserve Account in the Puerto Rico Electric Power Authority Revenue Bonds Interest and Sinking Fund, (iii) pay capitalized interest on the Series 2013A Bonds through January 1, 2016 and (iv) pay the costs of issuance of the Series 2013A Bonds.

Act No. 50 of July 1, 2013 authorizes PREPA to charge an "all in rate" preferential rate to PRASA of twenty-two (22) cents per kilowatt hour for fiscal years 2014, 2015, and 2016. Starting in fiscal year 2017, the "all in rate" preferential rate charged to PRASA will be reduced to sixteen (16) cents per kilowatt hour subject to certain terms and conditions.

(d) PRHTA

On December 13, 2012, Moody's downgraded PRHTA's Transportation Revenue Bonds from Baa1 to Baa3, its Highway Revenue Bonds from A3 to Baa2 and its Subordinate Transportation Revenue Bonds from Baa2 to Ba1 with a negative outlook. The rating changes were driven by the downgrade of the Commonwealth's general obligation bonds from Baa1 to Baa3. The ratings reflect only the opinions of such rating agency and an explanation of the significance of such ratings may be obtained only from the relevant rating agency.

On July 6, 2012, PRHTA entered into a new agreement with GDB for the amount of $64.1 million to increase the $63.0 million nonrevolving line of credit agreed on July 12, 2010, with the same loan terms and an extension in the maturity date until January 31, 2013.

On July 6, 2012, PRHTA entered into a new agreement with GDB for the amount of $156.9 million to increase the $147.0 million nonrevolving line of credit agreed on June 30, 2009, with the same loan terms and an extension in the maturity date until January 31, 2013. On February 14, 2013, PRHTA entered into a new agreement with GDB to extend the maturity of the line of credit until January 31, 2014.

On July 6, 2012, PRHTA entered into a new agreement with GDB for the amount of $151.2 million to increase the $140.0 million nonrevolving line of credit agreed on March 19, 2008, with the same loan terms and an extension in the maturity date until January 31, 2013. On February 14, 2013, PRHTA entered into a new agreement with GDB to extend the maturity of the line of credit until January 31, 2014.

On July 18, 2012, PRHTA entered into a new agreement with GDB for the amount of $94.4 million to establish a nonrevolving line of credit with maturity of January 31, 2013. On February 11, 2013, PRHTA entered into a new agreement with GDB to extend the maturity of the line of credit until January 31, 2014.

On August 22, 2012, PRHTA entered into a new agreement with GDB for the amount of $21.5 million to increase the $20.0 million nonrevolving line of credit agreed on October 30, 2009, with the same loan terms and an extension in the maturity date until January 31, 2013.

On August 22, 2012, PRHTA entered into a new agreement with GDB for the amount of $93.7 million to increase the $78.3 million nonrevolving line of credit agreed on July 6, 2009, with the same loan terms and an extension in the maturity date until January 31, 2013. On February 14, 2013, PRHTA entered into a new agreement with GDB to extend the maturity of the line of credit until January 31, 2014.

On February 8, 2013, PRHTA entered into a new agreement with GDB to extend the loan terms on the $147.1 million nonrevolving line of credit agreed on December 28, 2012, until January 31, 2014.

On February 14, 2013, PRHTA entered into a new agreement with GDB to extend the loan terms on the $172.9 million nonrevolving line of credit agreed on November 9, 2009, until January 31, 2014.

On February 14, 2013, PRHTA entered into a new agreement with GDB to extend the loan terms on the $477.6 million nonrevolving line of credit agreed on October 30, 2009, until January 31, 2014.

On February 14, 2013, PRHTA entered into a new agreement with GDB to increase the $428.8 million nonrevolving line of credit agreed on September 23, 2011, until January 31, 2014.

On June 24, 2013, PRHTA refunded in advance its Grant Anticipation Revenue Bonds, Series 2004, issued under its Resolution No. 04-18, adopted on April 7, 2004. The outstanding principal balance of these bonds amounted to $86.1 million. A deposit of $90.0 million was made to the escrow agent sufficient to pay principal and interest on these bonds on March 15, 2014.

On June 25, 2013, the Commonwealth enacted Act No. 31, which amended several articles of Act No. 1 of 2011, known as the Internal Revenue Code for a New Puerto Rico, related to the excise taxes on crude oil, unfinished oil and derivative products, which proceeds go to the PRHTA. Before the effective date of these amendments, the applicable excise tax rates to be applied on imports of

crude oil, unfinished oil and derivative products would fluctuate inversely to the changes in the price of the crude oil barrel. These excise tax rates would fluctuate from a maximum of $6 per barrel when the barrel price reaches a floor of $16, down to an excise tax rate of $3 per barrel when the barrel price increases to a price exceeding $28, up to a limit of $120 million per fiscal year. Over the past years since 2005, the barrel of crude oil has been over $28, therefore, PRHTA has only been receiving the related excise tax proceeds from the minimum excise tax rate of $3 per barrel. In order to create additional credit margin for the PRHTA and in turn enable it to repay its outstanding lines of credit with GDB of almost $2 billion, currently without a source of repayment, and return it to a self sufficient capacity, the aforementioned amendments would fix the excise tax rate per barrel to $9.25 and would eliminate the limit of $120 million on such excise taxes. Act No. 31 also allowed for the first $20 million raised from the excise tax on cigarettes' imports, recently increased through Act No. 41 of June 30, 2013, to be deposited in a special account in favor of the PRHTA.

On August 28, 2013, PRHTA entered into a $61.8 million nonrevolving line of credit agreement with GDB for working capital purposes. The line of credit matures on February 28, 2014 and bears interest at prime rate plus 150 basis points (with a cap of 12% and a floor of 6.00%), payable at maturity date.

On August 29, 2013, the PRHTA issued $400,000,000 Puerto Rico Highways and Transportation Authority Special Revenue Bonds, 2013A Bond Anticipation Notes (the "Series A Notes"). The Series A Notes mature on September 1, 2015 and bear interest at the Index Rate, as defined. The Index Rate is computed as the sum of the LIBOR plus the Applicable Spread (2.40%) and is subject to adjustment as provided in the 2013 Resolution. The Series A Notes are payable from, and are secured by the pledge of, certain revenues of the PRHTA, which include (i) the excise taxes in excess of $120 million per fiscal year, imposed by the Commonwealth on certain petroleum products; (ii) the remaining $25 per vehicle annual license fees imposed by the Commonwealth, which was previously allocated to the Treasury Department; (iii) the total amount of excise taxes up to $20 million per fiscal year, imposed by the Commonwealth on cigarettes; (iv) unencumbered revenues held in the 1998 Construction Fund established under Resolution No. 98-06 adopted by the PRHTA on February 26, 1998, as amended and (v) any additional revenues pledged to the PRHTA in accordance with the 2013 Resolution. The proceeds of the Series A Notes will be used to (i) pay a portion of the PRHTA's loans from the GDB and (ii) pay the costs of issuance of the Series A Notes.

(e) UPR

On December 14, 2012, Moody's downgraded the UPR's University System Revenue Bonds and Pledged Revenue Bonds from Baa2 to Ba1 and Educational Facilities Revenue Bonds, 2000 Series A issued through AFICA from Baa3 to Ba2. The rating action affects $599 million of rated debt that remain under review for possible downgrade. The downgrade was driven by an extraordinary high reliance on the Commonwealth for operating revenue and its dependence on GDB for operating lines for liquidity. In addition, the UPR has and limited ability to grow revenue given resistance to raising tuition and enrollment decline. The ratings reflect only the opinions of such rating agency and an explanation of the significance of such ratings may be obtained only from the relevant rating agency.

In January 2013, the $75 million line of credit facility with GDB was amended to extend the maturity date to January 31, 2014.

On April 7, 2013, Act No. 7 amended Act. No. 2 of January 20, 1966, as amended, to revise the formula for the Commonwealth appropriations, an amount equal to 9.60% of the average total

amount of annual general fund's revenues collected under the laws of the Commonwealth in the two fiscal years immediately preceding the current fiscal year. Act No. 7 is effective on July 1, 2013.

In addition, Act No. 7 of April 7, 2013 derogated Act No. 176 of November 2010, as amended by Act No. 46 of April 2011, in which the Commonwealth of Puerto Rico had committed to transfer 10% of the Additional Lottery's net annual income with a guaranteed minim amount of $30 million per academic year, for the creation of a Special Scholarship Fund for the UPR. The purpose of the fund was to provide financial aid to graduate and undergraduate students.

On January 26, 2013, the Board of Trustees of the UPR approved Certification No. 41 (2012–2013) which derogated the stabilization fee established by the Board of Trustees of the UPR on June 30, 2010 to address the UPR's budgetary deficit issues. This stabilization fee was charged to all students in addition to tuition charges and other fees already in place in the UPR. The stabilization fee amounted to $400 per student per semester. Board of Trustees Certification No. 41 is effective on July 1, 2013.

On April 30, 2013, Act No. 13 derogated Article 3 of Act No. 1 of 1996, as amended, and established a new Article 3 of Act No. 1 that, among other matters, defines the composition, faculties and duties of the Governing Board of the UPR (the "Governing Board"), the new governing body of the UPR. Act No. 13 substitutes the Board of Trustees of the UPR with the Governing Board composed of thirteen members, of which nine members are appointed by the Governor of Puerto Rico and confirmed by the Senate of Puerto Rico. The remaining members of the Governing Board consist of two tenured professors and two full-time students. The Secretary of the Department of Education of the Commonwealth becomes ex-officio member of the Governing Board.

(f) ACAA

On July 2, 2012, the Commonwealth enacted Act No. 134, which creates a support fund for the Commonwealth budget of the fiscal year 2012–2013. ACAA is required to contribute $12.5 million to this fund during fiscal year 2013.

(g) PRIDCO

On July 5, 2012, Moody's upgraded the rating on PRIDCO's general purpose revenue bonds from Baa2 to Baa1. The rating changes affect approximately $210 million of debt outstanding. The upgrade reflects the fact that PRIDCO's management managed to keep revenue and debt service coverage relatively stable during one of the worst economic downturns in the Commonwealth's history and recently called some near-term debt, bolstering coverage.

(h) PAA

On October 8, 2012, PAA entered into a line of credit agreement with GDB, whereby GDB agreed to provide PAA certain advances up to a maximum aggregate principal amount of $1.7 million plus any accrued interest. Interest would be based on 1.5% over the prime rate, with a floor of 6% and a ceiling of 12%. The proceeds of the line of credit are to finance some of the terms of the preliminary agreement between United States Army Corps of Engineers and PAA, if finally accepted by the United States Department of Justice. The aggregate unpaid outstanding line of credit balance including interest shall be payable on or before October 31, 2013. If debt is not paid at the maturity date, interest would be charged at 2% over the prime rate. The principal amount will be paid with legislative appropriations.

(i) PRCCDA

On July 15, 2012, PRCCDA entered into a development agreement with Lighthouse Group, LLC for the development of a mixed use urban project named "Trocadero Diverplex Complex". This agreement includes the development and operation of a food, beverage, entertainment venue, and the construction of a hotel in the final phase.

On October 22, 2012, PRCCDA entered into a development ground lease agreement with District Hotel Co., LLC. The agreement includes the construction of a minimum of 126 room hotel under the Hyatt House brand.

On December 13, 2012, Moody's downgraded PRCCDA's Hotel Occupancy Tax Revenue Bonds from Baa1 to Baa3 with a negative outlook. The rating changes were driven by the downgrade of the Commonwealth general obligation bonds from Baa1 to Baa3. The ratings reflect only the opinions of such rating agency and an explanation of the significance of such ratings may be obtained only from the relevant rating agency.

(j) PRPA

On February 27, 2013, the Federal Aviation Administration (FAA) approved the closing of the Lease and Use Agreements (the "APP Agreements") entered into on July 27, 2012 between the PRPA and Aerostar Airport Holdings, LLC (Aerostar) with respect to the Luis Muñoz Marín International Airport Project (LMMIA Project). Aerostar is a partnership formed between Grupo Aeropuertario de Sureste S.A.B de C.V (ASUR), a New York Stock Exchange-listed Mexican airport management firm, and Highstar Capital L.P., a fourth-generation infrastructure investor and private equity funds manager.

The APP Agreements awarded Aerostar the right to operate, manage, maintain, develop and rehabilitate the LMMIA during a term of 40 years, subject to extension conditions, as defined, in exchange for an upfront payment of a leasehold fee of $615 million to PRPA. In addition, upon the closing of the APP Agreements, PRPA will receive from Aerostar annual rental payments for the first five full reporting years of $2.5 million; then from the sixth full reporting year through and including the thirtieth reporting year, PRPA will receive annual rental payments equal to 5% of the gross airport revenue earned by Aerostar in such years; and finally from the thirty-first reporting year and each succeeding year, PRPA will receive annual rental payments equal to 10% of the gross airport revenue earned by Aerostar in such years. Aerostar also funded with a $6 million deposit a separate escrow account to be called the Puerto Rico Air Travel Promotion and Support Fund, with the purpose of compensating airlines that increase their services to the LMMIA over certain established thresholds during the first three years of the APP Agreements.

The right awarded to Aerostar to operate, manage and rehabilitate the LMMIA (following certain Operating Standards established by the FAA and PRPA) is accompanied with the assignment of all the revenues from the LMMIA facilities through the different lease agreements with the airport concessionaries, including food and beverage providers, retailers, ground transportation providers, and other airport users, formerly belonging to PRPA. Aerostar will also be able to charge a maximum level of fees to the airlines operating at LMMIA, as established in the APP Agreements.

The APP Agreements also provide for a series of capital improvement expenditures on the LMMIA from Aerostar over the term of the APP Agreements, with certain required initial projects and general accelerated upgrades, as defined. PRPA will be required to provide police and firefighter services to the LMMIA in exchange for an annual compensation of $2.8 million, to be adjusted

thereafter based on inflation. The APP Agreements also provide each party with indemnity rights in the event of certain third party claims or breaches of covenants or representations and warranties included in the APP Agreements. Upon expiration of the term of the APP Agreements, PRPA will be required to reimburse Aerostar for any Passenger Facility Charges, Grants in Aid or increased airline charges allowed by the Use Agreement it expected to receive, but had not yet received, to finance related capital improvements.

The LMMIA facilities leased to the Puerto Rico Air National Guard are excluded from the APP Agreements and upon the satisfaction of certain conditions, as defined, Aerostar will have option and negotiation rights for the use of such areas, that the parties will agree on the amount and form of compensation regarding the option. The hotel property within the LMMIA and the cargo facilities leased to Caribbean Airport Facilities (CAF) and the ongoing related litigation, will remain under the responsibility of PRPA. If the litigation is resolved, Aerostar will have option and negotiation rights for the use of such areas.

The upfront payment received was used to pay some of PRPA's outstanding debt with bondholders, several banks, including GDB, other creditors and related transaction costs.

(k) PRIFA

On March 18, 2013, S&P downgraded its ratings on PRIFA's Series 2011A, 2011B and 2011C revenue bonds from BBB to BBB-. The three issues are supported by letters of credit provided by GDB. The ratings reflect only the opinions of such rating agency and an explanation of the significance of such ratings may be obtained only from the relevant rating agency.

(l) PPPA

On July 7, 2012, PPPA signed an agreement with PRIFA, to provide design management and evaluation services related to the proposed extension of toll road PR-22 from the Municipality of Aguadilla to the Municipality of Hatillo.

Through September 2012, PPPA has awarded fifty-two partnership contracts for ninety-nine (99) public schools as part of the *Schools for the 21st Century Program* described in Note 13. Also, seventy (70) schools were under construction and twenty-nine (29) schools have been completed and turned over to the Commonwealth's Department of Education. The fifty-two (52) partnership contracts awarded through September 2012 represented a total investment of approximately $650 million.

(m) SIFC

On July 2, 2012, the Commonwealth enacted Act No. 134, which creates a support fund for the Commonwealth budget of the fiscal year 2012–2013. SIFC is required to contribute $24 million to this fund during fiscal year 2013. Such transfer was made on September 7, 2012.

(n) PRMFA

On September 5, 2012, S&P reviewed the rating for PRMFA's outstanding bonds and affirmed the BBB- rating but changed the outlook to negative from stable. On December 13, 2012, Moody's downgraded PRMFA's bonds from Baa1 to Baa3 with a negative outlook. The rating changes were driven by the downgrade of the Commonwealth's general obligation bonds from Baa1 to Baa3. The ratings reflect only the opinions of such rating agency and an explanation of the significance of such ratings may be obtained only from the relevant rating agency.

(o) LRA

On December 11, 2012, the United States Marine Corps transferred Parcels I and II of the Roosevelt Roads Navy Base consisting of 2,039 acres of land to the Commonwealth of Puerto Rico. This transaction completes the transfer of the total 8,468 acres of land of Roosevelt Roads Navy Base.

(p) PRMBA

On June 25, 2013, the Commonwealth enacted Act No. 31, which allowed for $10 million raised from the excise tax on cigarettes' imports, recently increased through Act No. 41 of June 30, 2013, to be deposited in a special account in favor of the PRMBA, after the first $20 million are deposited with priority in favor of PRHTA.

Pension Trust Funds — On December 13, 2012, Moody's downgraded the Commonwealth's Pension Funding Bonds from Baa1 to Baa3 with a negative outlook. The rating changes were driven by the downgrade of the Commonwealth general obligation bonds from Baa1 to Baa3 as a result of a continued weak economic trend, increasing debt levels, weak finances and continued deterioration of underfunded retirement systems.

On July 6, 2012, ERS loans with a carrying value of $53.5 million were sold to a commercial bank. Pursuant to a servicing agreement, ERS will be in charge of the servicing, administration and collection of the loans at and after the closing date. A servicing fee will be charged by ERS.

As discussed in Note 20, in April 4, 2013, the Governor of Puerto Rico signed into law Act. No. 3 of 2013, which significantly amends the provisions of ERS.

* * * * * *

REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF FUNDING PROGRESS — RETIREMENT SYSTEMS
JUNE 30, 2012

The Schedule of Funding Progress presents the following information for the current year and each of the two preceding years for each of the Commonwealth's Retirement Systems. All actuarially determined information has been calculated in accordance with actuarial assumptions and methods reflected in the actuarial valuations as of the indicated actuarial valuation date.

Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2012	$1,237,532	$27,645,786	$26,408,254	4.5 %	$3,570,339	739.7 %
June 30, 2011	1,723,811	25,457,354	23,733,543	6.8	3,666,402	647.3
June 30, 2010	1,664,991	19,501,761	17,836,770	8.5	3,818,332	467.1

The Commonwealth of Puerto Rico Judiciary Retirement System (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2012	$58,588	$416,340	$357,752	14.1 %	$33,066	1,081.9 %
June 30, 2011	63,975	382,776	318,801	16.7	31,811	1,002.2
June 30, 2010	55,410	338,195	282,785	16.4	32,061	882.0

Puerto Rico System of Annuities and Pensions for Teachers (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2012	$2,099,261	$12,350,836	$10,251,575	17.0 %	$1,292,975	792.9 %
June 30, 2011	2,385,863	11,448,609	9,062,746	20.8	1,320,400	686.4
June 30, 2010	2,221,977	9,279,776	7,057,799	23.9	1,370,344	515.0

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF FUNDING PROGRESS — POSTEMPLOYMENT HEALTHCARE BENEFITS
JUNE 30, 2012

The Schedule of Funding Progress presents GASB 45 results of OPEB valuations as of fiscal years ended June 30, 2012, 2011 and 2010 for each of the Commonwealth's Retirement Systems. The schedule provides a three year information trend about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2012	$ -	$2,120,970	$2,120,970	- %	$3,570,339	59.4%
June 30, 2011	-	1,758,389	1,758,389	-	3,666,402	48.0
June 30, 2010	-	1,646,148	1,646,148	-	3,818,332	43.1

The Commonwealth of Puerto Rico Judiciary Retirement System (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2012	$ -	$ 6,592	$ 6,592	- %	$33,066	19.9 %
June 30, 2011	-	5,810	5,810	-	31,811	18.3
June 30, 2010	-	5,808	5,808	-	32,061	18.1

Puerto Rico System of Annuities and Pensions for Teachers (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2012	$ -	$ 797,332	$ 797,332	- %	$1,292,975	61.7 %
June 30, 2011	-	706,069	706,069	-	1,320,400	53.5
June 30, 2010	-	694,230	694,230	-	1,370,344	50.7

See accompanying independent auditors' report.

COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES

GENERAL FUND

The general fund is the primary operating fund of the Commonwealth. The general fund is used to account for and report all financial resources received and used for those services traditionally provided by a government, which are not required legally or by sound financial management to be accounted for in another fund. Included are transactions for services such as general government, public safety, health, public housing and welfare, education, and economic development. Following is the supplemental schedule of expenditures — budget and actual — general fund.

COMMONWEALTH OF PUERTO RICO

SUPPLEMENTAL SCHEDULE OF EXPENDITURES BY AGENCY — BUDGET AND ACTUAL BUDGET BASIS — GENERAL FUND YEAR ENDED JUNE 30, 2012 (In thousands)

	Original Budget	Amended Budget	Actual
EXPENDITURES:			
Current:			
General government:			
Senate of Puerto Rico	$ 44,298	$ 47,799	$ 47,799
House of Representatives of Puerto Rico	52,775	56,275	56,285
Comptroller's Office	43,000	43,000	42,282
Governor's Office	20,120	21,444	-
Office of Management and Budget (1)	480,309	136,419	113,717
Planning Board	13,094	11,536	10,990
Department of State	5,656	6,420	6,259
Department of the Treasury (1)	383,642	839,907	1,138,151
Central Office of Personnel Administration	4,507	4,675	4,643
Commonwealth Elections Commission	53,017	53,119	50,823
Federal Affairs Administration	4,641	4,622	4,306
General Services Administration	200	200	205
Municipal Complaints Hearing Commission	5,024	4,978	6,751
Civil Rights Commission	1,193	1,190	1,039
Office of the Citizen's Ombudsman	5,376	5,368	5,049
Legislative Assembly	200	200	-
Government Ethics Board	10,290	10,290	10,290
Legislative Affairs Office	14,497	14,297	14,497
Office of the Superintendent of the Capitol	13,955	15,155	16,471
Comptroller's Special Reports Joint Commission	691	691	665
Legislative Donation Commission	21,767	1,167	-
Coordination Office for Special Communities of Puerto Rico	3,522	3,503	4,796
Corporation "Enlace" Caño Martín Peña	1,013	1,013	1,013
Puerto Rico Statistics Institute	641	641	641
Office for the Governmental's Integrity and Efficiency	3,828	6,231	6,266
Permits Management Office	3,005	3,005	2,998
Permits Inspector General Office	3,926	5,334	4,885
Board for the Review of Permits and Use of Lands	1,450	1,433	1,192
Public Service Board of Appeals	3,880	3,799	3,768
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	249,672	270,083	270,126
Puerto Rico System of Annuities and Pensions for Teachers	98,640	110,515	110,515
Contributions to Political Parties	1,200	8,700	1,200
Public Buildings Authority	16,940	16,590	16,590
Procurement Administration Offices	-	63	63
Office of Elections Comptroller	-	3,200	3,305
Labor Development Administration	-	18,400	-
Total general government	1,565,969	1,731,262	1,957,580
Public safety:			
Puerto Rico General Court of Justice	327,944	342,763	349,766
Civil Defense	6,338	6,312	5,902
Commission of Investigation, Processing and Appeals Board	507	507	411
Department of Justice	137,705	134,294	143,590
Puerto Rico Police Department	759,154	772,355	834,728
Puerto Rico Firefighters Corps	63,410	63,093	63,858
Puerto Rico National Guard	8,313	8,290	26,789
Public Service Commission	6,508	6,989	6,730
Consumer Affairs Department	10,981	9,546	9,451
Juvenile Institutions Administration	66,616	64,665	69,120
Correction Administration	360,068	350,784	324,691
Natural Resources Administration	49,246	46,943	46,980
Department of Correction and Rehabilitation	4,891	4,390	4,874

(1) As a department and a fiscal agent.

(Continued)

COMMONWEALTH OF PUERTO RICO

SUPPLEMENTAL SCHEDULE OF EXPENDITURES BY AGENCY — BUDGET AND ACTUAL
BUDGET BASIS — GENERAL FUND
YEAR ENDED JUNE 30, 2012
(In thousands)

	Original Budget	Amended Budget	Actual
EXPENDITURES (Continued):			
Public safety (continued):			
Parole Board	$ 2,628	$ 2,685	$ 2,554
Forensic Sciences Institute	16,011	16,268	16,393
Special Prosecutor Panel	2,064	2,058	2,058
Pre-Trial Services Office	6,673	8,096	6,998
Correctional Health	73,417	71,821	66,857
Medical Emergencies Service	26,764	27,454	27,339
Criminal Justice College	2,771	2,876	2,876
Total public safety	1,932,009	1,942,189	2,011,965
Health:			
Environmental Quality Board	5,641	7,447	8,014
Department of Health	290,569	297,417	578,062
Puerto Rico Medical Services Administration	17,710	22,910	22,910
Mental Health and Drug Addiction Services Administration	100,990	111,467	109,400
Puerto Rico Solid Waste Authority	6,802	7,075	7,108
Puerto Rico Health Insurance Administration	871,371	945,185	960,908
Total health	1,293,083	1,391,501	1,686,402
Public housing and welfare:			
Office of Youth Affairs	4,132	4,401	5,714
New Business Training Administration	7,148	7,530	266
Department of Labor and Human Resources	-	25,363	17,745
Labor Relations Board	908	902	900
Department of Housing	15,727	16,948	33,177
Department of Recreation and Sports	40,411	43,873	48,633
Administration for the Horse Racing Sport and Industry	2,644	2,688	2,670
Women’s Affairs Commission	6,042	4,487	4,746
Public Housing Administration	1,500	1,500	1,550
Office of the Veteran’s Ombudsman	2,777	2,720	2,680
Department of Family	25,788	31,197	30,075
Family and Children Administration	173,717	172,851	169,277
Minors Support Administration	14,511	14,746	14,734
Vocational Rehabilitation Administration	17,271	17,995	18,635
Social Economic Development Administration	96,342	83,572	76,970
Office of the Disabled Persons Ombudsman	2,197	2,169	2,507
Office for Elderly Affairs	3,547	3,492	2,354
Right to Employment Administration	8,641	13,712	13,755
Company for the Integral Development of the Península de Cantera	574	574	574
Industries for the Blind, Mentally Retarded, and Other Disabled Persons of Puerto Rico	500	500	500
Patient Ombudsman	2,558	2,792	2,659
Administration for the Care and Development of the Childhood	9,276	24,061	23,953
Total public housing and welfare	436,211	478,073	474,074

(Continued)

COMMONWEALTH OF PUERTO RICO

SUPPLEMENTAL SCHEDULE OF EXPENDITURES BY AGENCY — BUDGET AND ACTUAL
BUDGET BASIS — GENERAL FUND
YEAR ENDED JUNE 30, 2012
(In thousands)

	Original Budget	Amended Budget	Actual
EXPENDITURES (Continued):			
Education:			
Department of Education	$2,227,898	$ 2,103,807	$ 2,063,475
Institute of Puerto Rican Culture	22,974	29,048	26,035
Puerto Rico School of Plastics Arts	2,229	2,274	2,296
State Office for Historic Preservation	1,794	3,853	4,065
University of Puerto Rico	771,005	772,418	772,418
Musical Arts Corporation	7,517	7,538	7,546
Fine Arts Center Corporation	4,281	4,487	4,519
Puerto Rico Public Broadcasting Corporation	15,358	16,017	15,363
Athenaeum of Puerto Rico	900	900	900
Puerto Rico Conservatory of Music Corporation	6,023	6,392	6,392
Puerto Rico Council on Education	23,581	23,637	23,629
Total education	3,083,560	2,970,371	2,926,638
Economic development:			
Department of Transportation and Public Works	60,600	65,105	79,159
Department of Natural and Environmental Resources	4,960	19,983	18,728
Department of Agriculture	16,165	18,698	37,706
Cooperative Enterprises Development Administration	-	-	423
Rural Development Corporation	-	-	18
Department of Economic Development and Commerce	-	-	2,438
Energy Affairs Administration	332	463	416
Puerto Rico Infrastructure Financing Authority	117,000	117,000	130,379
Land Authority of Puerto Rico	-	-	350
Puerto Rico Ports Authority	900	4,900	4,900
Puerto Rico Metropolitan Bus Authority	45,026	44,445	44,195
Puerto Rico Maritime Transportation Authority	24,604	24,749	24,925
Culebra Conservation and Development Authority	301	315	321
National Parks Company of Puerto Rico	19,939	26,042	27,001
Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico	463	481	468
Local Redevelopment Authority for Roosvelt Roads Puerto Rico	900	900	900
Agricultural Enterprises Development Administration	84,929	86,143	85,500
Puerto Rico Tourism Company	4,070	275	275
Total economic development	380,189	409,499	458,102
Intergovernmental — Municipal Services Administration	389,620	406,299	396,447
TOTAL EXPENDITURES	$9,080,641	$ 9,329,194	$ 9,911,208
OPERATING TRANSFER-OUT TO OTHER FUNDS — Department of the Treasury — transfer to Debt Service Fund and other funds	$ 179,359	$ 803,030	$ 2,055,095

See accompanying independent auditors' report.

(Concluded)

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Other resources (investment earnings and transfers from other funds, for example) also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund.

Public Buildings Authority Special Revenue Fund — The operating fund of the Public Buildings Authority, a blended component unit, used to account for the operation, maintenance, equipment replacement, and other extraordinary operation and maintenance costs of the buildings and facilities that, when constructed, are leased to the Commonwealth's primary government agencies.

The Children's Trust Special Revenue Fund — The special revenue fund of the Children's Trust, a blended component unit, is used to account for the money received by the Commonwealth from a global settlement agreement dated November 23, 1998 between certain tobacco companies and certain states, territories, and other jurisdictions of the United State of America, including the Commonwealth. The financial resources received by this fund are used to carry out projects aimed at promoting the well-being of children and youth of Puerto Rico.

Debt Service Funds

The debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest, and related costs other than bonds payable from operations of proprietary fund types, pension trust funds, and discretely presented component units. Long-term debt and interest due on July 1 of the following year are accounted for as a fund liability if resources are available as of June 30 for its payment.

The Children's Trust Debt Service Fund — The debt service fund of The Children's Trust accounts for the financial resources that are restricted, committed, or assigned to expenditure for the payment of interest and principal on long-term obligations financed with moneys to be received by the Commonwealth from the global settlement agreement signed by certain tobacco companies.

Public Buildings Authority Debt Service Fund — A blended component unit engaged in the construction and/or acquisition of building facilities for lease mainly to the Commonwealth's primary government agencies. Its debt service fund is used to account for the financial resources that are restricted, committed, or assigned to expenditure for the payment of revenue bonds and other liabilities incurred to finance the construction of the buildings and facilities.

Puerto Rico Maritime Shipping Authority Debt Service Fund — This is the remainder of a former shipping company owned by the Commonwealth. Its debt service fund is used to account for the financial resources that are restricted for the payment of the long-term liability that resulted from the sale of its marine operations. This fund is mainly subsidized from appropriations and operating transfers from the general fund.

Capital Projects Funds

Capital project funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets not being financed by the Public Buildings Authority's Capital Projects Fund, proprietary fund types, pension trust funds, and discretely presented component units.

Commonwealth Public Improvements Funds and Other Funds — These funds present the activities of the capital improvements program of the Commonwealth, financed with the proceeds of the general obligation bonds.

Public Buildings Authority's Capital Projects Fund — The Public Buildings Authority's capital projects fund is used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets not financed by proprietary fund types, pension trust funds, and discretely presented component units.

COMMONWEALTH OF PUERTO RICO

COMBINING BALANCE SHEET — NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012
(In thousands)

	Special Revenue		Debt Service			Capital Projects		Total
ASSETS	Public Buildings Authority	The Children's Trust	The Children's Trust	Public Buildings Authority	Puerto Rico Maritime Shipping Authority	Commonwealth of Puerto Rico	Public Buildings Authority	Nonmajor Governmental Funds
CASH AND CASH EQUIVALENTS IN COMMERCIAL BANKS	$122,429	$ -	$ -	$ -	$ -	$ -	$ -	$ 122,429
CASH AND CASH EQUIVALENTS IN GOVERNMENTAL BANKS	52	20,427	-	-	1,684	-	-	22,163
INVESTMENTS	-	23,268	-	-	-	-	-	23,268
RECEIVABLES — Net of allowance for uncollectibles:								
Accounts	-	-	-	-	-	671	-	671
Loans	-	-	-	-	-	39	-	39
Accrued interest	-	1	442	-	-	-	-	443
Other	1,156	-	40,585	-	-	-	-	41,741
DUE FROM:								
Other funds	46,872	-	-	-	-	4,786	-	51,658
Component units	38,621	-	-	-	-	-	-	38,621
Other governmental entities	22,847	-	-	-	-	-	-	22,847
OTHER ASSETS	851	-	-	-	-	-	-	851
RESTRICTED ASSETS:								
Cash and cash equivalents in commercial banks	-	-	-	201,575	37	26,857	619,243	847,712
Cash and cash equivalents in governmental banks	-	-	-	-	-	258,386	31,542	289,928
Investments	-	-	110,455	-	-	-	-	110,455
Due from other funds	-	-	-	-	13,596	-	-	13,596
REAL ESTATE HELD FOR SALE OR FUTURE DEVELOPMENT	3,084	-	-	-	-	1,853	-	4,937
TOTAL ASSETS	$235,912	$43,696	$151,482	$201,575	$ 15,317	$292,592	$ 650,785	$ 1,591,359

(Continued)

COMMONWEALTH OF PUERTO RICO

COMBINING BALANCE SHEET — NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012
(In thousands)

LIABILITIES AND FUND BALANCES	Special Revenue		Debt Service			Capital Projects		Total
	Public Buildings Authority	The Children's Trust	The Children's Trust	Public Buildings Authority	Puerto Rico Maritime Shipping Authority	Commonwealth of Puerto Rico	Public Buildings Authority	Nonmajor Governmental Funds
LIABILITIES:								
Accounts payable and accrued liabilities	$ 37,633	$ 633	$ -	$ -	$ 76	$ 11,981	$ 7,108	$ 57,431
Due to:								
Other funds	1,684	-	-	-	-	-	-	1,684
Other governmental entities	-	-	-	-	-	-	-	-
Component units	2,924	-	-	-	-	-	-	2,924
Bond anticipation notes payable	-	-	-	-	-	75,835	-	75,835
Bonds payable	-	-	-	78,580	-	-	-	78,580
Interest payable	-	-	-	96,853	-	-	-	96,853
Deferred revenue	35,070	-	40,585	-	-	-	-	75,655
Total liabilities	77,311	633	40,585	175,433	76	87,816	7,108	388,962
FUND BALANCES:								
Restricted for:								
Debt service	-	-	110,897	26,142	13,633	-	-	150,672
Capital projects	-	-	-	-	-	204,776	643,677	848,453
Committed to:								
Special revenue	-	35,922	-	-	-	-	-	35,922
Assigned to:								
Special revenue	158,601	7,141	-	-	-	-	-	165,742
Unassigned	-	-	-	-	1,608	-	-	1,608
Total fund balances	158,601	43,063	110,897	26,142	15,241	204,776	643,677	1,202,397
TOTAL LIABILITIES AND FUND BALANCES	$235,912	$43,696	$151,482	$201,575	$ 15,317	$292,592	$650,785	$ 1,591,359

See accompanying independent auditors' report.

(Concluded)

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES — NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012
(In thousands)

	Special Revenue		Debt Service			Capital Projects		Total
	Public Buildings Authority	The Children's Trust	The Children's Trust	Public Buildings Authority	Puerto Rico Maritime Shipping Authority	Commonwealth of Puerto Rico	Public Buildings Authority	Total Nonmajor Governmental Funds
REVENUES:								
Interest and investment earnings	$ 3,050	$ 47	$ 3,373	$ -	$ 2	$ -	$ -	$ 6,472
Intergovernmental	-	-	-	28,061	-	-	-	28,061
Other	8,151	406	-	-	-	2,990	-	11,547
Total revenues	11,201	453	3,373	28,061	2	2,990	-	46,080
EXPENDITURES:								
Current:								
General government	80,854	334	10	-	-	10,548	-	91,746
Public safety	-	-	-	-		3,832	-	3,832
Health	-	1,376	-	-	-	6,021	-	7,397
Public housing and welfare	-	1,255	-	-	-	5,695	-	6,950
Education	-	449	-	-	-	2,254	-	2,703
Economic development	-	-	-	-	69	205,047	-	205,116
Intergovernmental	-	660	-	-	-	-	-	660
Capital outlays	-	-	-	-	-	51,797	375,092	426,889
Debt service:								
Principal	336,852	-	22,060	78,580	-	-	-	437,492
Interest	26,020	-	54,475	210,410	5,810	377	-	297,092
Other — debt issuance costs	-	-	-	9,596	1,722	2,836	9,566	23,720
Total expenditures	443,726	4,074	76,545	298,586	7,601	288,407	384,658	1,503,597
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(432,525)	(3,621)	(73,172)	(270,525)	(7,599)	(285,417)	(384,658)	(1,457,517)
OTHER FINANCING SOURCES (USES):								
Transfers in	449,541	-	72,491	-	5,858	-	141,054	668,944
Transfers out	-	-	-	(259,104)	-	(25,198)	-	(284,302)
Payment to refunded bonds escrow agent	-	-	-	(390,343)	(116,376)	-	-	(506,719)
Proceeds from long term debt issued	73,893	-	-	-	-	333,311	877,977	1,285,181
Issuance of refunding bonds	-	-	-	886,290	131,694	-	-	1,017,984
Discount on bonds issued	-	-	-	(6,846)	-	(8,463)	-	(15,309)
Premium on bonds issued	-	-	-	1,079	-	-	-	1,079
Total other financing sources	523,434	-	72,491	231,076	21,176	299,650	1,019,031	2,166,858
NET CHANGE IN FUND BALANCES	90,909	(3,621)	(681)	(39,449)	13,577	14,233	634,373	709,341
FUND BALANCES — Beginning of year	67,692	46,684	111,578	65,591	1,664	190,543	9,304	493,056
FUND BALANCES — End of year	$ 158,601	$ 43,063	$ 110,897	$ 26,142	$ 15,241	$ 204,776	$ 643,677	$ 1,202,397

See accompanying independent auditors' report.

NONMAJOR PROPRIETARY FUNDS

Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the government is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Disability Insurance — It was created by Act No. 139 on June 26, 1968. It is used to account for disability benefits to remedy temporarily the loss of income as a result of disability caused by sickness or accident unrelated to the employment.

Drivers' Insurance — It was created by Act No. 428 on May 15, 1950. It is used to account for contributions made by the drivers and their employers to provide a social security plan for the benefit of the drivers in Puerto Rico. The plan also includes payment of benefits for health and life insurance.

Puerto Rico Water Pollution Control Revolving Fund — It was created by Act No. 44 on June 21, 1988, as amended. It is administered, pursuant to Act No. 9 of June 18, 1970, as amended, by the Puerto Rico Environmental Quality Board (EQB). Pursuant to such Act, EQB is authorized to enter into operating agreements and capitalization grant agreements with the U.S. Environmental Protection Agency (EPA) for lending activities.

Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund — It was created by Act No. 32 on July 7, 1997. It is administered, pursuant to Act No. 9 of June 18, 1970, as amended, by the Puerto Rico Department of Health (DOH). Pursuant to such act, DOH, on behalf of the Commonwealth, is authorized to enter into operating and capitalization grant agreements with the EPA for lending activities.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF NET ASSETS — NONMAJOR PROPRIETARY FUNDS
JUNE 30, 2012
(In thousands)

	Business-Type Activities — Nonmajor Enterprise Funds				
	Disability Insurance	Drivers' Insurance	Puerto Rico Water Pollution Control Revolving Fund	Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund	Total
ASSETS					
Current assets:					
Cash and cash equivalents in commercial banks	$ 32	$ 51	$ -	$ -	$ 83
Cash and cash equivalents in governmental banks	52,239	11,606	-	-	63,845
Cash and cash equivalents in commercial banks — restricted	1,528	-	-	-	1,528
Cash and cash equivalents in governmental banks — restricted	-	-	81,952	29,245	111,197
Insurance premiums receivables, net	3,143	1,156	-	-	4,299
Loans receivable from component unit — restricted	-	-	14,274	4,892	19,166
Accrued interest receivable	90	-	-	-	90
Restricted receivables	-	-	3,048	1,523	4,571
Other receivables	256	-	-	-	256
Total current assets	57,288	12,813	99,274	35,660	205,035
Noncurrent assets:					
Loans receivable from component unit — restricted	-	-	290,525	140,353	430,878
Due from other funds	-	18,131	-	-	18,131
Restricted investments	34,538	-	-	-	34,538
Other restricted assets	-	-	1,130	-	1,130
Total assets	91,826	30,944	390,929	176,013	689,712
LIABILITIES AND NET ASSETS					
Current liabilities:					
Accounts payable and accrued liabilities	684	249	1,777	290	3,000
Due to other funds	803	-	-	-	803
Due to other governmental entities	20	27	-	-	47
Deferred revenue	2,142	20	-	-	2,162
Compensated absences	558	323	-	-	881
Insurance benefits payable	713	120	-	-	833
Total current liabilities	4,920	739	1,777	290	7,726
Noncurrent liabilities — Compensated absences	838	485	-	-	1,323
Total liabilities	5,758	1,224	1,777	290	9,049
NET ASSETS:					
Restricted for payment of insurance benefits	35,353	-	-	-	35,353
Restricted for lending activities	-	-	389,152	175,723	564,875
Unrestricted	50,715	29,720	-	-	80,435
TOTAL NET ASSETS	$86,068	$29,720	$389,152	$ 175,723	$680,663

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS — NONMAJOR PROPRIETARY FUNDS YEAR ENDED JUNE 30, 2012 (In thousands)

	Business-Type Activities — Nonmajor Enterprise Funds				
	Disability Insurance	Drivers' Insurance	Puerto Rico Water Pollution Control Revolving Fund	Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund	Total
OPERATING REVENUES:					
Insurance premiums	$15,077	$ 4,444	$ -	$ -	$ 19,521
Interest	-	-	5,676	2,916	8,592
Total operating revenues	15,077	4,444	5,676	2,916	28,113
OPERATING EXPENSES:					
Insurance benefits	2,957	1,080	-	-	4,037
General, administrative, and other operating expenses	10,192	4,453	1,109	865	16,619
Total operating expenses	13,149	5,533	1,109	865	20,656
OPERATING INCOME (LOSS)	1,928	(1,089)	4,567	2,051	7,457
NONOPERATING REVENUES (EXPENSES):					
Contributions from U.S. government	-	-	45,749	11,866	57,615
Contributions to component unit	-	-	(6,216)	(7,365)	(13,581)
Interest and investment earnings	1,406	37	-	-	1,443
Total nonoperating revenues	1,406	37	39,533	4,501	45,477
INCOME (LOSS) BEFORE TRANSFERS	3,334	(1,052)	44,100	6,552	52,934
TRANSFERS FROM OTHER FUNDS	-	-	4,855	52	4,907
TRANSFERS TO OTHER FUNDS	(1,882)	(93)	-	-	(1,975)
NET CHANGE IN NET ASSETS	1,452	(1,145)	48,955	6,604	55,866
NET ASSETS — Beginning of year	84,616	30,865	340,197	169,119	624,797
NET ASSETS — End of year	$86,068	$29,720	$389,152	$175,723	$680,663

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF CASH FLOWS — NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012
(In thousands)

	Business-Type Activities — Nonmajor Enterprise Funds				
	Disability Insurance	Drivers' Insurance	Puerto Rico Water Pollution Control Revolving Fund	Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers and users	$ 14,846	$ 4,388	$ -	$ -	$ 19,234
Other receipts	-	-	-	-	-
Payments to suppliers	(5,004)	(1,258)	(660)	(682)	(7,604)
Payments to employees	(5,101)	(3,128)	-	-	(8,229)
Payments of insurance benefits	(2,676)	(1,082)	-	-	(3,758)
Other payments	(411)	(213)	-	-	(624)
Net cash provided by (used in) operating activities	1,654	(1,293)	(660)	(682)	(981)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Intergovernmental grants and contributions	-	-	45,749	11,781	57,530
Contributions to component unit	-	-	(6,216)	(7,365)	(13,581)
Transfers from other funds	-	-	4,855	52	4,907
Transfers to other funds	(1,882)	(93)	-	-	(1,975)
Net cash provided by (used in) noncapital financing activities	(1,882)	(93)	44,388	4,468	46,881
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest collected on deposits, investments and loans	1,233	204	5,410	2,873	9,720
Loans originated	-	-	(51,337)	(4,318)	(55,655)
Principal collected on loans	-	2,500	13,620	5,558	21,678
Proceeds from sales and maturities of investments	20,945	-	-	-	20,945
Purchases of investments	(20,198)	-	-	-	(20,198)
Net cash provided by (used in) investing activities	1,980	2,704	(32,307)	4,113	(23,510)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,752	1,318	11,421	7,899	22,390
CASH AND CASH EQUIVALENTS — Beginning of year	52,047	10,339	70,531	21,346	154,263
CASH AND CASH EQUIVALENTS — End of year	$ 53,799	$11,657	$ 81,952	$29,245	$176,653
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:					
Operating income (loss)	$ 1,928	$ (1,089)	$ 4,567	$ 2,051	$ 7,457
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Interests earned on deposits, loans and investments	-	-	(5,676)	(2,916)	(8,592)
Changes in operating assets and liabilities:					
Increase in accounts receivable	(323)	(58)	-	-	(381)
Decrease in other assets	-	-	393	-	393
Increase in accounts payable and accrued liabilities	27	83	56	183	349
Decrease in due to other governmental entities	(458)	(213)	-	-	(671)
Increase in deferred revenues	92	2	-	-	94
Increase (decrease) in compensated absences	107	(15)	-	-	92
Increase (decrease) in liability for insurance benefits payable	281	(3)	-	-	278
Total adjustments	(274)	(204)	(5,227)	(2,733)	(8,438)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 1,654	$ (1,293)	$ (660)	$ (682)	$ (981)

See accompanying independent auditors' report.

FIDUCIARY FUNDS

Fiduciary funds are used to account for funds held by the Commonwealth in a trustee capacity, or as an agent for individuals, organizations, and other governmental units. Following are the Commonwealth's fiduciary funds:

Pension Trust Funds

The pension trust funds are used to account for the assets, liabilities, and net assets available for pension benefits held in trust for the public employees of the Commonwealth.

Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) — ERS is a defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration and was created by Act No. 447 on May 15, 1951. ERS is sponsored by the Commonwealth, public corporations, and municipalities of Puerto Rico. Substantially all full-time employees of the Commonwealth and its instrumentalities are covered by ERS.

Puerto Rico System of Annuities and Pensions for Teachers (TRS) — TRS is a defined benefit pension plan administered by the Puerto Rico Teachers Retirement System and was created by Act No. 91 of March 29, 2004, that superseded Act No. 218 of May 6, 1951. TRS is sponsored by the Commonwealth. Substantially, all active teachers of the Commonwealth's Department of Education are covered by TRS. Licensed teachers working in private schools or other educational organizations can be members of TRS at their own choice as long as the required employer and employee contributions are satisfied.

Commonwealth of Puerto Rico Judiciary Retirement System (JRS) — JRS is a defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration and was created by Act No. 12 on October 19, 1954. JRS provides retirement benefits to the employees of the judiciary branch of the Commonwealth, through the office of the Administration of Court Facilities.

Agency Fund

Agency fund is used to account for assets held by the Commonwealth as an agent for individuals, private organizations, and other governments. This fund is custodial in nature (assets equal liabilities) and does not involve measurement of the results of operations.

Special Deposits — This fund acts in a fiduciary capacity in order to account for moneys received with specified purposes for which the law does not specify its recording in any other fund. It mainly includes deposits under the custody of the courts of justice for alimony payments, escrows, revenue collections and agency accounts for which the Commonwealth act in an agent's capacity.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF FIDUCIARY NET ASSETS — PENSION TRUST FUNDS
JUNE 30, 2012
(In thousands)

	Pension Trust Funds			
	Employees' Retirement System (ERS)	Teachers' Retirement System (TRS)	Judiciary Retirement System (JRS)	Total
ASSETS:				
Cash and cash equivalents in commercial banks — Unrestricted	$ 309,800	$ 321,635	$ 11,543	$ 642,978
Cash and cash equivalents in governmental banks:				
Unrestricted	172,563	16,220	745	189,528
Restricted	233,931	-	-	233,931
Collateral for securities lending transactions	54,870	20,528	1,088	76,486
Investments:				
Debt and equity securities — at fair value	2,409,363	1,412,695	48,730	3,870,788
Other	57,370	19,221	-	76,591
Receivables — net:				
Accounts	124,672	-	-	124,672
Loans and advances	955,057	403,812	471	1,359,340
Accrued interest and dividends	13,044	7,603	255	20,902
Other	100,993	73,147	27	174,167
Capital assets — net	11,668	20,885	-	32,553
Other assets	36,451	832	-	37,283
Total assets	4,479,782	2,296,578	62,859	6,839,219
LIABILITIES:				
Accounts payable and accrued liabilities	118,453	175,724	2,948	297,125
Securities lending transactions	54,870	20,528	1,088	76,486
Interest payable	13,877	-	-	13,877
Other liabilities	28,457	1,110	235	29,802
Bonds payable	3,026,593	-	-	3,026,593
Total liabilities	3,242,250	197,362	4,271	3,443,883
NET ASSETS — held in trust for pension benefits	$ 1,237,532	$ 2,099,216	$ 58,588	$ 3,395,336

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS — PENSION TRUST FUNDS
YEAR ENDED JUNE 30, 2012
(In thousands)

	Pension Trust Funds			
	Employees' Retirement System (ERS)	Teachers' Retirement System (TRS)	Judiciary Retirement System (JRS)	Total
ADDITIONS:				
Contributions:				
Sponsor	$ 388,915	$ 123,614	$ 10,088	$ 522,617
Participants	316,178	123,249	2,943	442,370
Special	192,539	53,405	537	246,481
Total contributions	897,632	300,268	13,568	1,211,468
Investment income and investment expense:				
Interest	176,892	56,306	1,361	234,559
Dividends	2,095	4,342	7	6,444
Net change in fair value of investments	99,012	(20,134)	517	79,395
Investment expenses	(5,617)	(3,361)	(167)	(9,145)
Net investment income	272,382	37,153	1,718	311,253
Other income	24,727	1,374	18	26,119
Total additions	1,194,741	338,795	15,304	1,548,840
DEDUCTIONS:				
Pension and other benefits	1,376,892	596,447	20,175	1,993,514
Refunds of contributions	52,228	5,220	-	57,448
General and administrative	61,163	23,775	516	85,454
Interest on bonds payable	190,737	-	-	190,737
Total deductions	1,681,020	625,442	20,691	2,327,153
NET CHANGE IN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	(486,279)	(286,647)	(5,387)	(778,313)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:				
Beginning of year	1,723,811	2,385,863	63,975	4,173,649
End of year	$ 1,237,532	$ 2,099,216	$ 58,588	$ 3,395,336

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES — AGENCY FUNDS
YEAR ENDED JUNE 30, 2012
(In thousands)

ASSETS	Balance at June 30, 2011	Additions	Deletions	Balance at June 30, 2012
CASH AND CASH EQUIVALENTS IN COMMERCIAL BANKS	$ 697,988	$ 984	$ -	$ 698,972
CASH AND CASH EQUIVALENTS IN GOVERNMENTAL BANKS	661,560	3,496,985	3,611,614	546,931
OTHER RECEIVABLES	9,393	5,252	9,393	5,252
OTHER INVESTMENTS	1,270	-	1,270	-
TOTAL ASSETS	$ 1,370,211	$ 3,503,221	$ 3,622,277	$ 1,251,155
LIABILITIES				
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 1,370,211	$ 3,503,221	$ 3,622,277	$ 1,251,155
TOTAL LIABILITIES	$ 1,370,211	$ 3,503,221	$ 3,622,277	$ 1,251,155

See accompanying independent auditors' report.

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS

These entities are presented because the nature and significance of their relationship with the primary government are such that their exclusion would cause the basic financial statements to be misleading. These are discretely presented in a separate column in the basic financial statements due to the nature of the services they provide. The accounting principles followed by each of the component units included herein may vary depending on the type of industries they are involved in (that is, banking, construction, public utilities, and so forth). The detailed information for each of these entities may be obtained directly from the administrative offices of the corresponding entities, as described in Note 1 to the basic financial statements included in the financial section of this report.

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

ASSETS	Agricultural Enterprises Development Administration	Automobile Accidents Compensation Administration	Cardiovascular Center Corporation of Puerto Rico and the Caribbean	Company for the Integral Development of the "Península de Cantera"	Corporation for the "Caño Martín Peña" ENLACE Project
CURRENT ASSETS:					
Cash and cash equivalents in commercial banks	$ 30,607	$ 18,973	$ 8,925	$ 1,080	$ 324
Cash and cash equivalents in governmental banks	12,453	-	-	-	-
Investments	300	147,125	-	-	-
Restricted assets:					
Cash and cash equivalents in commercial banks	-	-	-	-	-
Cash and cash equivalents in governmental banks	-	-	-	-	-
Investments	-	-	-	-	-
Other restricted assets	-	-	-	-	-
Collateral from securities lending transactions	-	-	-	-	-
Receivables — net:					
Insurance premiums	-	50	-	-	-
Intergovernmental	-	-	-	-	-
Accounts	5,678	-	6,878	-	-
Loans and advances	-	-	-	9	-
Accrued interest	-	756	-	-	-
Other governmental entities	3,945	247	692	383	725
Other	613	1,325	-	26	-
Due from:					
Primary government	16,356	-	1,391	23,192	-
Component units	-	-	-	-	-
Inventories	5,529	-	2,599	-	-
Prepaid expenses	3,849	-	1,237	50	1
Total current assets	79,330	168,476	21,722	24,740	1,050
NONCURRENT ASSETS:					
Restricted assets:					
Cash and cash equivalents in commercial banks	-	-	2,270	-	35
Cash and cash equivalents in governmental banks	-	-	-	-	-
Investments	-	-	-	-	-
Other restricted assets	-	-	-	497	-
Investments	-	-	-	-	-
Receivables:					
Loans, interest, and other	-	-	-	5,958	-
Other governmental agencies	-	-	-	-	-
Other	-	-	-	-	-
Due from:					
Primary government	-	-	-	-	-
Component units	-	-	-	-	-
Deferred expenses and other assets	-	43	-	-	-
Real estate held for sale or future development	-	-	-	848	-
Capital assets, not being depreciated	4,100	901	103	80	3,774
Capital assets, depreciable — net	31,490	7,194	16,069	82	1,495
Total noncurrent assets	35,590	8,138	18,442	7,465	5,304
TOTAL ASSETS	114,920	176,614	40,164	32,205	6,354

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

ASSETS	Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico	Culebra Conservation and Development Authority	Economic Development Bank for Puerto Rico	Employment and Training Enterprises Corporation	Farm Insurance Corporation of Puerto Rico
CURRENT ASSETS:					
Cash and cash equivalents in commercial banks	$ 1,688	$ 64	$ 3,380	$ 1	$ 1,547
Cash and cash equivalents in governmental banks	8,317	-	268	329	-
Investments	937	-	259,694	-	-
Restricted assets:					
Cash and cash equivalents in commercial banks	-	11	1,832	-	5,677
Cash and cash equivalents in governmental banks	-	-	-	-	-
Investments	-	-	-	-	-
Other restricted assets	-	-	-	-	-
Collateral from securities lending transactions	-	-	-	-	-
Receivables — net:					
Insurance premiums	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Accounts	73	6	-	-	-
Loans and advances	-	-	103,578	-	-
Accrued interest	-	-	9,358	-	-
Other governmental entities	810	-	-	252	814
Other	-	-	-	-	-
Due from:					
Primary government	-	-	-	-	-
Component units	-	-	-	-	-
Inventories	-	-	-	207	-
Prepaid expenses	-	-	-	-	95
Total current assets	11,825	81	378,110	789	8,133
NONCURRENT ASSETS:					
Restricted assets:					
Cash and cash equivalents in commercial banks	-	-	-	-	-
Cash and cash equivalents in governmental banks	-	-	-	788	-
Investments	-	-	-	-	-
Other restricted assets	-	-	6,602	-	-
Investments	-	-	1,049,258	-	-
Receivables:					
Loans, interest, and other	930	-	129,764	-	-
Other governmental agencies	-	-	66	-	9,256
Other	-	-	-	-	-
Due from:					
Primary government	-	-	-	-	-
Component units	-	-	-	-	-
Deferred expenses and other assets	-	-	6,107	-	-
Real estate held for sale or future development	-	-	-	-	-
Capital assets, not being depreciated	-	640	2,735	-	-
Capital assets, depreciable — net	-	318	6,448	146	248
Total noncurrent assets	930	958	1,200,980	934	9,504
TOTAL ASSETS	12,755	1,039	1,579,090	1,723	17,637

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

ASSETS	Fine Arts Center Corporation	Governing Board of the 9-1-1- Service	Institute of Puerto Rican Culture	Institutional Trust of the National Guard of Puerto Rico	Land Authority of Puerto Rico
CURRENT ASSETS:					
Cash and cash equivalents in commercial banks	$ 4,013	$ -	$ 1,251	$ -	$ 1,391
Cash and cash equivalents in governmental banks	-	18,044	118	3,521	24,906
Investments	-	-	-	-	-
Restricted assets:					
Cash and cash equivalents in commercial banks	-	-	18,879	-	-
Cash and cash equivalents in governmental banks	-	-	-	-	-
Investments	-	-	-	-	-
Other restricted assets	-	-	-	-	-
Collateral from securities lending transactions	-	-	-	-	-
Receivables — net:					
Insurance premiums	-	-	-	-	-
Intergovernmental	-	-	32	-	-
Accounts	49	1,931	32	814	14,657
Loans and advances	-	-	-	-	-
Accrued interest	-	-	-	634	-
Other governmental entities	301	-	648	155	5,340
Other	-	1,712	-	-	-
Due from:					
Primary government	-	-	-	-	12,303
Component units	-	-	-	-	20,051
Inventories	-	43	1,900	-	-
Prepaid expenses	121	4	-	9	26
Total current assets	4,484	21,734	22,860	5,133	78,674
NONCURRENT ASSETS:					
Restricted assets:					
Cash and cash equivalents in commercial banks	-	-	-	-	-
Cash and cash equivalents in governmental banks	-	6,656	-	-	-
Investments	-	13,496	-	-	-
Other restricted assets	-	-	-	-	-
Investments	-	4,110	-	55,687	-
Receivables:					
Loans, interest, and other	-	-	-	-	-
Other governmental agencies	-	-	-	-	-
Other	-	-	-	209	-
Due from:					
Primary government	-	-	-	-	-
Component units	-	-	-	-	-
Deferred expenses and other assets	-	-	-	-	7,847
Real estate held for sale or future development	-	-	-	-	-
Capital assets, not being depreciated	3,472	1,980	2,100	24,040	87,956
Capital assets, depreciable — net	15,433	2,269	56,724	5,091	9,386
Total noncurrent assets	18,905	28,511	58,824	85,027	105,189
TOTAL ASSETS	23,389	50,245	81,684	90,160	183,863

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

ASSETS	Musical Arts Corporation	National Parks Company of Puerto Rico	Port of the Americas Authority	Public Corporation for the Supervision and Deposit Insurance of PR Cooperatives	Puerto Rico Conservatory of Music Corporation
CURRENT ASSETS:					
Cash and cash equivalents in commercial banks	$2,202	$ 231	$ -	$ 2,040	$ 117
Cash and cash equivalents in governmental banks	567	1,141	2,486	-	-
Investments	-	-	-	17,772	-
Restricted assets:					
Cash and cash equivalents in commercial banks	-	-	-	-	-
Cash and cash equivalents in governmental banks	408	-	-	-	-
Investments	-	-	-	-	-
Other restricted assets	-	-	-	-	-
Collateral from securities lending transactions	-	-	-	-	-
Receivables — net:				-	
Insurance premiums	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Accounts	42	448	2	-	-
Loans and advances	-	-	-	-	-
Accrued interest	-	-	-	1,680	-
Other governmental entities	170	174	-	-	1,886
Other	-	-	-	159	377
Due from:					
Primary government	-	-	-	-	-
Component units	-	-	-	-	-
Inventories	-	-	-	-	-
Prepaid expenses	32	23	90	-	36
Total current assets	3,421	2,017	2,578	21,651	2,416
NONCURRENT ASSETS:					
Restricted assets:					
Cash and cash equivalents in commercial banks	-	5,576	-	-	1,382
Cash and cash equivalents in governmental banks	-	11,424	-	-	-
Investments	-	-	-	77,515	-
Other restricted assets	-	-	-	-	-
Investments	-	-	-	111,128	-
Receivables:					
Loans, interest, and other	-	-	-	3,300	-
Other governmental agencies	-	-	-	-	-
Other	-	-	-	-	-
Due from:					
Primary government	-	-	-	-	-
Component units	-	-	-	-	-
Deferred expenses and other assets	-	-	-	-	-
Real estate held for sale or future development	-	-	-	-	-
Capital assets, not being depreciated	568	19,817	323,912	-	40,335
Capital assets, depreciable — net	216	146,368	3	2,972	43,222
Total noncurrent assets	784	183,185	323,915	194,915	84,939
TOTAL ASSETS	4,205	185,202	326,493	216,566	87,355

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

ASSETS	Puerto Rico Convention Center District Authority	Puerto Rico Council on Education	Puerto Rico Industrial Development Company	Puerto Rico Industrial, Tourist, Educational, Medical and Environmental, Control Facilities Financing Authority	Puerto Rico Infrastructure Financing Authority
CURRENT ASSETS:					
Cash and cash equivalents in commercial banks	$ 14,446	$ 12	$ 9,094	$ -	$ 1,329
Cash and cash equivalents in governmental banks	1,346	2,520	-	9,665	713
Investments	-	-	-	-	-
Restricted assets:					
Cash and cash equivalents in commercial banks	-	-	-	-	110,542
Cash and cash equivalents in governmental banks	12,800	3,017	-	-	48,734
Investments	23,780	-	30,814	-	-
Other restricted assets	-	-	-	-	-
Collateral from securities lending transactions	-	-	-	-	-
Receivables — net:					
Insurance premiums	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Accounts	6,784	-	24,795	1	289
Loans and advances	-	-	576	-	-
Accrued interest	-	-	-	1	-
Other governmental entities	-	330	1,500	-	1,383
Other	-	-	-	-	-
Due from:					
Primary government	-	5,221	-	-	8,613
Component units	11,718	-	-	-	-
Inventories	-	-	-	-	-
Prepaid expenses	1,193	-	4,583	-	567
Total current assets	72,067	11,100	71,362	9,667	172,170
NONCURRENT ASSETS:					
Restricted assets:					
Cash and cash equivalents in commercial banks	-	-	-	-	-
Cash and cash equivalents in governmental banks	4,767	-	-	-	-
Investments	33,364	-	27,182	-	260,698
Other restricted assets	-	-	-	-	66,909
Investments	-	-	93	-	-
Receivables:				-	
Loans, interest, and other	2,066	-	142	-	-
Other governmental agencies	-	-	-	-	-
Other	4,717	-	-	-	-
Due from:				-	
Primary government	-	-	-	-	179,643
Component units	-	-	-	-	-
Deferred expenses and other assets	13,651		1,837	-	35,250
Real estate held for sale or future development	-	-	-	-	-
Capital assets, not being depreciated	301,086	-	241,704	-	32,223
Capital assets, depreciable — net	395,469	266	444,041	-	22,732
Total noncurrent assets	755,120	266	714,999	-	597,455
TOTAL ASSETS	827,187	11,366	786,361	9,667	769,625

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

ASSETS	Puerto Rico Land Administration	Puerto Rico and Municipal Islands Maritime Transport Authority	Puerto Rico Medical Services Administration	Puerto Rico Metropolitan Bus Authority	Puerto Rico Municipal Finance Agency
CURRENT ASSETS:					
Cash and cash equivalents in commercial banks	$ 267	$ 462	$ 267	$ 4,024	$ -
Cash and cash equivalents in governmental banks	31,342	-	-	80	3,445
Investments	11,569	-	-	-	-
Restricted assets:					
Cash and cash equivalents in commercial banks	-	-	-	-	3,445
Cash and cash equivalents in governmental banks	-	-	-	-	-
Investments	-	-	-	-	237,495
Other restricted assets	-	-	-	-	25,628
Collateral from securities lending transactions	-	-	-	-	-
Receivables — net:					
Insurance premiums	-	-	-	-	-
Intergovernmental	-	137	-	-	-
Accounts	308	134	16,979	-	-
Loans and advances	-	-	-	-	-
Accrued interest	542	-	-	-	-
Other governmental entities	2,182	403	45,187	6,073	-
Other	502	-	-	-	-
Due from:					
Primary government	-	-	9,273	1,909	-
Component units	1,306	-	7,320	-	-
Inventories	-	63	2,806	3,149	-
Prepaid expenses	67	5,365	1,197	2,052	32
Total current assets	48,085	6,564	83,029	17,287	270,045
NONCURRENT ASSETS:					
Restricted assets:					
Cash and cash equivalents in commercial banks	733	-	7,746	-	-
Cash and cash equivalents in governmental banks	-	-	-	-	-
Investments	-	-	-	-	880,014
Other restricted assets	-	-	-	-	-
Investments	-	-	-	-	-
Receivables:					
Loans, interest, and other	-	-	-	-	-
Other governmental agencies	-	-	-	-	-
Other	-	-	-	-	-
Due from:					
Primary government	-	-	-	-	-
Component units	-	-	-	-	-
Deferred expenses and other assets			-	542	10,620
Real estate held for sale or future development	159,325	-	-	-	-
Capital assets, not being depreciated	30,523	26,194	6,872	4,303	-
Capital assets, depreciable — net	9,370	34,088	47,858	47,960	-
Total noncurrent assets	199,951	60,282	62,476	52,805	890,634
TOTAL ASSETS	248,036	66,846	145,505	70,092	1,160,679

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

ASSETS	Puerto Rico Ports Authority	Puerto Rico Public Broadcasting Corporation	Puerto Rico Public Private Partnerships Authority	Puerto Rico School of Plastic Arts	Solid Waste Authority
CURRENT ASSETS:					
Cash and cash equivalents in commercial banks	$ 2,185	$ 512	$ -	$ 14	$ 558
Cash and cash equivalents in governmental banks	3,019	5	385	643	2,635
Investments	-	-	-	-	18,608
Restricted assets:					
Cash and cash equivalents in commercial banks	-	1,204	-	-	-
Cash and cash equivalents in governmental banks	-	-	-	-	15,172
Investments	-	-	-	-	-
Other restricted assets	2,442	-	-	-	-
Collateral from securities lending transactions	-	-	-	-	-
Receivables — net:					
Insurance premiums	-	-	-	-	-
Intergovernmental	29,081	-	-	-	-
Accounts	-	487	-	473	-
Loans and advances	-	-	-	-	-
Accrued interest	-	-	-	-	-
Other governmental entities	-	375	-	-	1,401
Other	-	682	-	-	1,476
Due from:					
Primary government	-	-	1,529	-	3,001
Component units	-	-	-	-	-
Inventories	-	-	-	-	-
Prepaid expenses	7,532	-	1	-	1
Total current assets	44,259	3,265	1,915	1,130	42,852
NONCURRENT ASSETS:					
Restricted assets:					
Cash and cash equivalents in commercial banks	23,686	-	-	-	-
Cash and cash equivalents in governmental banks	9,128	-	-	-	-
Investments	-	-	-	1,624	-
Other restricted assets	25,351	-	-	-	-
Investments	-	-	-	-	500
Receivables:					
Loans, interest, and other	-	-	-	-	-
Other governmental agencies	10,429	-	-	-	-
Other	-	-	-	-	-
Due from:					
Primary government	11,800	-	-	-	674
Component units	32,655	-	-	-	-
Deferred expenses and other assets	7,764	313	-	-	169
Real estate held for sale or future development	-	-	-	-	-
Capital assets, not being depreciated	398,397	83	-	-	29,614
Capital assets, depreciable — net	741,767	15,147	1	8,052	108,544
Total noncurrent assets	1,260,977	15,543	1	9,676	139,501
TOTAL ASSETS	1,305,236	18,808	1,916	10,806	182,353

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

ASSETS	Puerto Rico Telephone Authority	Puerto Rico Tourism Company	Puerto Rico Trade and Export Company	Local Redevelopment Authority for Roosevelt Roads Puerto Rico
CURRENT ASSETS:				
Cash and cash equivalents in commercial banks	$ -	$ 14,701	$ 6,405	$ -
Cash and cash equivalents in governmental banks	7,971	10,578	7,202	468
Investments	-	7,577	-	-
Restricted assets:				
Cash and cash equivalents in commercial banks	-	-	-	-
Cash and cash equivalents in governmental banks	-	-	-	-
Investments	-	-	-	-
Other restricted assets	-	-	-	-
Collateral from securities lending transactions	-	-	-	-
Receivables — net:				
Insurance premiums	-	-	-	-
Intergovernmental	-	-	-	-
Accounts	-	6,750	2,185	451
Loans and advances	-	15	-	-
Accrued interest	1	-	5,292	-
Other governmental entities	-	-	-	-
Other	-	187	-	-
Due from:				-
Primary government	-	2,441	-	-
Component units	-	-	-	-
Inventories	-	-	-	-
Prepaid expenses	-	261	110	-
Total current assets	7,972	42,510	21,194	919
NONCURRENT ASSETS:				
Restricted assets:				
Cash and cash equivalents in commercial banks	-	-	4,997	-
Cash and cash equivalents in governmental banks	3,892	-	1,267	-
Investments	-	-	374,892	-
Other restricted assets	-	-	-	-
Investments	-	51,147	-	-
Receivables:				
Loans, interest, and other	-	1,500	-	-
Other governmental agencies	-	-	-	-
Other	-	-	-	-
Due from:				
Primary government	-	1,412	-	-
Component units	-	-	-	-
Deferred expenses and other assets	-	453	-	-
Real estate held for sale or future development	-	-	-	-
Capital assets, not being depreciated	-	14,152	60,279	8,045
Capital assets, depreciable — net	-	20,618	54,712	-
Total noncurrent assets	3,892	89,282	496,147	8,045
TOTAL ASSETS	11,864	131,792	517,341	8,964

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

ASSETS	Special Communities Perpetual Trust	State Insurance Fund Corporation	University of Puerto Rico Comprehensive Cancer Center	Nonmajor Component Units Totals
CURRENT ASSETS:				
Cash and cash equivalents in commercial banks	$ -	$ 71,142	$ 1,441	$ 204,693
Cash and cash equivalents in governmental banks	-	10,013	1,355	165,535
Investments	-	419,658	-	883,240
Restricted assets:				
Cash and cash equivalents in commercial banks	-	-	-	141,590
Cash and cash equivalents in governmental banks	135,303	-	-	215,434
Investments	-	-	-	292,089
Other restricted assets	151	-	-	28,221
Collateral from securities lending transactions	-	112,060	-	112,060
Receivables — net:				
Insurance premiums	-	46,149	-	46,199
Intergovernmental	-	-	674	29,924
Accounts	-	-	-	90,246
Loans and advances	-	-	-	104,178
Accrued interest	-	9,649	-	27,913
Other governmental entities	569	4,481	9,649	90,075
Other	-	14,719	-	21,778
Due from:				
Primary government	-	-	1,649	86,878
Component units	-	6,218	-	46,613
Inventories	-	3,225	-	19,521
Prepaid expenses	-	129	244	28,907
Total current assets	136,023	697,443	15,012	2,635,094
NONCURRENT ASSETS:				
Restricted assets:				
Cash and cash equivalents in commercial banks	-	-	60	46,485
Cash and cash equivalents in governmental banks	-	-	141	38,063
Investments	-	314,600	-	1,983,385
Other restricted assets	-	-	-	99,359
Investments	-	768,616	-	2,040,539
Receivables:				
Loans, interest, and other	-	-	-	143,660
Other governmental agencies	-	-	-	19,751
Other	-	-	-	4,926
Due from:				
Primary government	-	-	2,000	195,529
Component units	-	-	-	32,655
Deferred expenses and other assets	-	-	-	84,596
Real estate held for sale or future development	-	-	-	160,173
Capital assets, not being depreciated	-	13,010	7,406	1,690,404
Capital assets, depreciable — net	-	93,203	22,421	2,411,423
Total noncurrent assets	-	1,189,429	32,028	8,950,948
TOTAL ASSETS	136,023	1,886,872	47,040	11,586,042

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Agricultural Enterprises Development Administration	Automobile Accidents Compensation Administration	Cardiovascular Center Corporation of Puerto Rico and the Caribbean	Company for the Integral Development of the "Península de Cantera"	Corporation for the "Caño Martín Peña" ENLACE Project
LIABILITIES:					
Current liabilities:					
Accounts payable and accrued liabilities	64,841	11,260	29,027	3,843	89
Deposits and escrow liabilities	-	-	-	-	-
Due to:					
Primary government	-	-	28,769	-	-
Component units	13,863	1,079	15,762	23,103	-
Other governmental entities	3,421	586	524	-	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-
Interest payable	-	-	-	-	-
Deferred revenue	-	38,270	-	-	-
Notes payable, current portion	1,830	-	-	-	-
Bonds payable, current portion	-	-	-	-	-
Accrued compensated absences, current portion	2,340	2,941	3,370	108	63
Voluntary termination benefits payable	2,464	-	-	-	-
Liability for automobile accident insurance, workmen compensation and medical claims	-	157,140	-	-	-
Capital leases	-	-	-	-	-
Current portion of other long-term liabilities	-	-	-	-	-
Total current liabilities	88,759	211,276	77,452	27,054	152
Noncurrent liabilities:					
Due to:					
Primary government	-	-	-	-	-
Component units	97,408	-	-	-	-
Other governmental entities	-	-	-	-	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Notes payable	-	-	-	-	-
Commonwealth appropriation bonds	-	-	-	-	-
Bonds payable	-	-	-	-	-
Accrued compensated absences	3,241	-	-	-	39
Voluntary termination benefits payable	23,503	-	-	-	-
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	-	-
Capital leases	-	-	-	-	-
Other long-term liabilities	-	-	5,611	-	-
Total noncurrent liabilities	124,152	-	5,611	-	39
Total liabilities	212,911	211,276	83,063	27,054	191
NET ASSETS (DEFICIT):					
Invested in capital assets, net of related debt	35,591	8,095	16,172	162	5,269
Restricted for:					
Trust — nonexpendable	-	-	-	-	-
Capital projects	-	-	-	-	-
Debt service	-	-	-	-	-
Affordable housing and related loan insurance programs	-	-	-	-	-
Student loans and other educational purpose	-	-	-	-	-
Other specified purposes	-	-	2,270	497	35
Unrestricted	(133,582)	(42,757)	(61,341)	4,492	859
TOTAL NET ASSETS (DEFICIT)	$ (97,991)	$ (34,662)	$ (42,899)	$ 5,151	$ 6,163

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico	Culebra Conservation and Development Authority	Economic Development Bank for Puerto Rico	Employment and Training Enterprises Corporation	Farm Insurance Corporation of Puerto Rico
LIABILITIES:					
Current liabilities:					
Accounts payable and accrued liabilities	360	20	-	2,793	612
Deposits and escrow liabilities	-	-	543,614	4	-
Due to:					
Primary government	-	-	-	-	-
Component units	-	-	471	-	-
Other governmental entities	271	-	-	-	-
Securities lending transactions and reverse repurchase agreements	-	-	104,925	-	-
Interest payable	-	-	6,901	-	-
Deferred revenue	-	-	-	788	4,255
Notes payable, current portion	-	-	41,800	-	-
Bonds payable, current portion	-	-	-	-	-
Accrued compensated absences, current portion	232	14	-	257	673
Voluntary termination benefits payable	-	35	-	-	-
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	-	-
Capital leases	-	1	-	-	-
Current portion of other long-term liabilities	-	-	3,068	-	-
Total current liabilities	863	70	700,779	3,842	5,540
Noncurrent liabilities:					
Due to:					
Primary government	-	-	-	-	-
Component units	-	-	9,422	-	4,992
Other governmental entities	-	-	-	-	-
Securities lending transactions and reverse repurchase agreements	-	-	19,000	-	-
Deferred revenue	-	-	-	-	-
Notes payable	-	-	684,341	-	-
Commonwealth appropriation bonds	-	-	-	-	-
Bonds payable	-	-	-	-	-
Accrued compensated absences	-	45	2,123	-	-
Voluntary termination benefits payable	-	154	-	-	-
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	-	-
Capital leases	-	4	-	-	-
Other long-term liabilities	-	-	5,912	-	-
Total noncurrent liabilities	-	203	720,798	-	4,992
Total liabilities	863	273	1,421,577	3,842	10,532
NET ASSETS (DEFICIT):					
Invested in capital assets, net of related debt	-	953	(710)	146	248
Restricted for:		-			
Trust — nonexpendable	-	-	-	-	-
Capital projects	-		-	-	-
Debt service	-	-	-	-	-
Affordable housing and related loan insurance programs	-	-	-	-	-
Student loans and other educational purpose	-	-	-	-	-
Other specified purposes	-	27	13,158	-	-
Unrestricted	11,892	(214)	145,065	(2,265)	6,857
TOTAL NET ASSETS (DEFICIT)	$ 11,892	$ 766	$ 157,513	$(2,119)	$ 7,105

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Fine Arts Center Corporation	Governing Board of the 9-1-1- Service	Institute of Puerto Rican Culture	Institutional Trust of the National Guard of Puerto Rico	Land Authority of Puerto Rico
LIABILITIES:					
Current liabilities:					
Accounts payable and accrued liabilities	396	1,124	3,505	1,254	19,964
Deposits and escrow liabilities	319	-	-	-	9,363
Due to:					
Primary government	-	4,508	-	-	-
Component units	-	-	-	-	-
Other governmental entities	-	1,977	43	34	234
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-
Interest payable	-	-	-	-	310
Deferred revenue	-	-		-	-
Notes payable, current portion	-	-		-	-
Bonds payable, current portion	-	-	-	-	-
Accrued compensated absences, current portion	206	555	151	64	1,004
Voluntary termination benefits payable	141	161	268	-	-
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	-	-
Capital leases	-	-	-	-	-
Current portion of other long-term liabilities	-	-	-	-	2,234
Total current liabilities	1,062	8,325	3,967	1,352	33,109
Noncurrent liabilities:					
Due to:					
Primary government	-	-	-	-	-
Component units	-	-	2,515	-	42,629
Other governmental entities	-	-	2,434	-	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Notes payable	-	-	-	-	-
Commonwealth appropriation bonds	-	-	-	-	55,178
Bonds payable	-	-	-	-	-
Accrued compensated absences	508	865	1,675	-	962
Voluntary termination benefits payable	1,388	617	2,124	-	-
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	-	-
Capital leases	-	-	-	-	-
Other long-term liabilities	-	-	-	-	35,432
Total noncurrent liabilities	1,896	1,482	8,748	-	134,201
Total liabilities	2,958	9,807	12,715	1,352	167,310
NET ASSETS (DEFICIT):					
Invested in capital assets, net of related debt	18,338	4,250	56,309	26,530	92,342
Restricted for:					
Trust — nonexpendable	-	-	-	-	-
Capital projects	-	10,005	8,123	-	-
Debt service	-	-	-	-	-
Affordable housing and related loan insurance programs	-	-	-	-	-
Student loans and other educational purpose	-	-	-	-	-
Other specified purposes	-	5,750	6,216	-	-
Unrestricted	2,093	20,433	(1,679)	62,278	(75,789)
TOTAL NET ASSETS (DEFICIT)	$20,431	$40,438	$68,969	$88,808	$ 16,553

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Musical Arts Corporation	National Parks Company of Puerto Rico	Port of the Americas Authority	Public Corporation for the Supervision and Deposit Insurance of PR Cooperatives	Puerto Rico Conservatory of Music Corporation
LIABILITIES:					
Current liabilities:					
Accounts payable and accrued liabilities	745	1,490	16,104	28,289	2,128
Deposits and escrow liabilities	-	-	-	-	-
Due to:					
Primary government	-	1,930	-	-	-
Component units	-	8,463	-	-	1,411
Other governmental entities	498	7,916	-	-	692
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-
Interest payable	-	316	13,721	-	-
Deferred revenue	599	211	-	-	1,095
Notes payable, current portion	-	-	-	-	-
Bonds payable, current portion	-	-	-	-	-
Accrued compensated absences, current portion	421	248	44	1,999	146
Voluntary termination benefits payable	-	-	-	-	184
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	-	-
Capital leases	-	-	-	-	-
Current portion of other long-term liabilities	-	-	-	-	3,506
Total current liabilities	2,263	20,574	29,869	30,288	9,162
Noncurrent liabilities:					
Due to:					
Primary government	-	-	-	-	-
Component units	-	12,174	219,349	-	-
Other governmental entities	5,530	-	-	-	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Notes payable	-	-	-	-	-
Commonwealth appropriation bonds	-	-	-	-	-
Bonds payable	-	-	-	-	-
Accrued compensated absences	248	4,715	-	-	706
Voluntary termination benefits payable	750	12,070	-	747	-
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	-	-
Capital leases	-	-	-	-	-
Other long-term liabilities	-	2,621	-	-	-
Total noncurrent liabilities	6,528	31,580	219,349	747	706
Total liabilities	8,791	52,154	249,218	31,035	9,868
NET ASSETS (DEFICIT):					
Invested in capital assets, net of related debt	784	160,291	79,936	2,972	48,379
Restricted for:					
Trust — nonexpendable	-	-	-	-	
Capital projects	-	16,652	-	-	31,667
Debt service	-	-	-	-	-
Affordable housing and related loan insurance programs	-	-	-	-	-
Student loans and other educational purpose	-	-	-	-	1,377
Other specified purposes	408	-	-	77,379	-
Unrestricted	(5,778)	(43,895)	(2,661)	105,180	(3,936)
TOTAL NET ASSETS (DEFICIT)	$(4,586)	$133,048	$ 77,275	$185,531	$77,487

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Puerto Rico Convention Center District Authority	Puerto Rico Council on Education	Puerto Rico Industrial Development Company	Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental, Control Facilities Financing Authority	Puerto Rico Infrastructure Financing Authority
LIABILITIES:					
Current liabilities:					
Accounts payable and accrued liabilities	11,409	685	25,826	267	237,621
Deposits and escrow liabilities	2,326	-	-	-	-
Due to:					
Primary government	-	-	7,634	-	6,682
Component units	4,057	-	89,148	-	4,595
Other governmental entities	108	-	-	-	7,149
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-
Interest payable	10,435	-	5,106	-	41,077
Deferred revenue	3,647	-	-	-	-
Notes payable, current portion	-	-	6,574	-	-
Bonds payable, current portion	9,470	-	28,570	-	37,460
Accrued compensated absences, current portion	165	371	5,394	12	318
Voluntary termination benefits payable	-	190	752	-	347
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	-	-
Capital leases	-	-	-	-	-
Current portion of other long-term liabilities	-	-	76	-	-
Total current liabilities	41,617	1,246	169,080	279	335,249
Noncurrent liabilities:					
Due to:					
Primary government	-	-	-	-	-
Component units	145,889	-	-	-	36,885
Other governmental entities	-	-	-	-	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-
Deferred revenue	2,931	-	-	-	-
Notes payable	-	-	86,158	-	-
Commonwealth appropriation bonds	-	-	-	-	3,607
Bonds payable	436,992	-	196,701	-	1,912,738
Accrued compensated absences	-	334	-	-	-
Voluntary termination benefits payable	-	1,704	8,243	-	-
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	-	-
Capital leases	-	-	-	-	-
Other long-term liabilities	-	-	9,973	-	7,550
Total noncurrent liabilities	585,812	2,038	301,075	-	1,960,780
Total liabilities	627,429	3,284	470,155	279	2,296,029
NET ASSETS (DEFICIT):					
Invested in capital assets, net of related debt	104,204	266	393,160	-	(1,212)
Restricted for:					
Trust — nonexpendable	-	-	-	-	256,932
Capital projects	12,413	-	-	-	-
Debt service	46,710	-	26,080	-	116,872
Affordable housing and related loan insurance programs	-	-	-	-	-
Student loans and other educational purpose	-	7,813	-	-	-
Other specified purposes	-	-	-	-	507
Unrestricted	36,431	3	(103,034)	9,388	(1,899,503)
TOTAL NET ASSETS (DEFICIT)	$199,758	$ 8,082	$ 316,206	$9,388	$(1,526,404)

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Puerto Rico Land Administration	Puerto Rico and Municipal Islands Maritime Transport Authority	Puerto Rico Medical Services Administration	Puerto Rico Metropolitan Bus Authority	Puerto Rico Municipal Finance Agency
LIABILITIES:					
Current liabilities:					
Accounts payable and accrued liabilities	2,038	13,651	17,664	11,091	556
Deposits and escrow liabilities	-	-	-	-	62,241
Due to:					
Primary government	-	-	3,366	15,695	-
Component units	-	3,088	19,764	5,134	-
Other governmental entities	-	1,173	37,309	6,013	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-
Interest payable	-	-	-	81	21,240
Deferred revenue	1,923	7,306	-	2,238	-
Notes payable, current portion	-	-	-	2,711	-
Bonds payable, current portion	-	-	-	-	93,835
Accrued compensated absences, current portion	1,059	1,239	13,696	4,344	-
Voluntary termination benefits payable	266	348	-	1,344	-
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	-	-
Capital leases	-	-	-	-	-
Current portion of other long-term liabilities	-	-	82	-	-
Total current liabilities	5,286	26,805	91,881	48,651	177,872
Noncurrent liabilities:					
Due to:					
Primary government	-	-	-	-	-
Component units	-	46,797	264,390	-	-
Other governmental entities	-	-	10,344	-	3,524
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-
Deferred revenue	4,750	-	-	-	-
Notes payable	-	-	-	34,337	-
Commonwealth appropriation bonds	-	-	-	-	-
Bonds payable	-	-	-	-	909,697
Accrued compensated absences	-	211	-	1,277	-
Voluntary termination benefits payable	1,965	3,688	-	6,764	-
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	-	-
Capital leases	-	-	-	-	-
Other long-term liabilities	33,998	-	6,626	4,399	-
Total noncurrent liabilities	40,713	50,696	281,360	46,777	913,221
Total liabilities	45,999	77,501	373,241	95,428	1,091,093
NET ASSETS (DEFICIT):					
Invested in capital assets, net of related debt	9,370	56,977	54,649	52,263	-
Restricted for:					
Trust — nonexpendable	-	-	-	-	-
Capital projects	-	-	-	-	-
Debt service	-	-	-	-	128,906
Affordable housing and related loan insurance programs	-	-	-	-	-
Student loans and other educational purpose	-	-	-	-	-
Other specified purposes	-	-	-	-	-
Unrestricted	192,667	(67,632)	(282,385)	(77,599)	(59,320)
TOTAL NET ASSETS (DEFICIT)	$202,037	$(10,655)	$(227,736)	$(25,336)	$ 69,586

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Puerto Rico Ports Authority	Puerto Rico Public Broadcasting Corporation	Puerto Rico Public Private Partnerships Authority	Puerto Rico School of Plastic Arts	Solid Waste Authority
LIABILITIES:					
Current liabilities:					
Accounts payable and accrued liabilities	78,092	2,212	2,376	256	4,183
Deposits and escrow liabilities	1,369	-	-	-	-
Due to:					
Primary government	-	-	-	-	-
Component units	125,947	-	6,050	-	79,701
Other governmental entities	-	676	-	-	1,299
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-
Interest payable	6,151	-	-	-	-
Deferred revenue	141	-	-	-	4
Notes payable, current portion	12,712	-	-	-	-
Bonds payable, current portion	340,000	-	-	-	-
Accrued compensated absences, current portion	-	973	106	85	292
Voluntary termination benefits payable	2,205	422	-	77	5,748
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	-	-
Capital leases	-	-	-	-	-
Current portion of other long-term liabilities	-	-	-	-	-
Total current liabilities	566,617	4,283	8,532	418	91,227
Noncurrent liabilities:					
Due to:					
Primary government	20,006	-	-	-	-
Component units	52,068	-	-	-	-
Other governmental entities	16,090	-	-	-	4,541
Securities lending transactions and reverse repurchase agreements	-	-	-	-	-
Deferred revenue	1,806	-	-	-	-
Notes payable	80,588	-	-	-	-
Commonwealth appropriation bonds	-	-	-	-	7,778
Bonds payable	336,791	-	-	-	-
Accrued compensated absences	-	1,402	-	229	372
Voluntary termination benefits payable	18,706	3,542	-	518	-
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	-	-
Capital leases	-	-	-	-	-
Other long-term liabilities	5,844	-	-	-	-
Total noncurrent liabilities	531,899	4,944	-	747	12,691
Total liabilities	1,098,516	9,227	8,532	1,165	103,918
NET ASSETS (DEFICIT):					
Invested in capital assets, net of related debt	193,496	15,229	1	8,052	63,742
Restricted for:					
Trust — nonexpendable	-	-	-	-	-
Capital projects	60,607	-	-	-	6,000
Debt service	-	-	-	-	-
Affordable housing and related loan insurance programs	-	-	-	-	-
Student loans and other educational purpose	-	-	-	1,624	-
Other specified purposes	-	1,078	-	-	125
Unrestricted	(47,383)	(6,726)	(6,617)	(35)	8,568
TOTAL NET ASSETS (DEFICIT)	$ 206,720	$ 9,581	$(6,616)	$ 9,641	$ 78,435

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Puerto Rico Telephone Authority	Puerto Rico Tourism Company	Puerto Rico Trade and Export Company	Local Redevelopment Authority Roosevelt Roads Puerto Rico
LIABILITIES:				
Current liabilities:				
Accounts payable and accrued liabilities	11	33,765	5,490	284
Deposits and escrow liabilities	-	-	-	-
Due to:				
Primary government	-	12,546	-	-
Component units	-	23,943	1,429	-
Other governmental entities	-	-	-	-
Securities lending transactions and reverse repurchase agreements	-	-	-	-
Interest payable	-	1,338	4,932	-
Deferred revenue	-	7,504	-	-
Notes payable, current portion	-	11,570	493	-
Bonds payable, current portion	-	-	-	-
Accrued compensated absences, current portion	-	487	498	-
Voluntary termination benefits payable	-	487	339	-
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	-
Capital leases	-	101	14	-
Current portion of other long-term liabilities	-	-	-	-
Total current liabilities	11	91,741	13,195	284
Noncurrent liabilities:				
Due to:				
Primary government	-	-	-	-
Component units	-	-	-	-
Other governmental entities	-	-	-	7,845
Securities lending transactions and reverse repurchase agreements	-	-	-	-
Deferred revenue	-	-	-	-
Notes payable	-	-	390,038	-
Commonwealth appropriation bonds	-	43,484	-	-
Bonds payable	-	-	-	-
Accrued compensated absences	-	4,774	1,371	-
Voluntary termination benefits payable	-	5,623	2,932	-
Liability for automobile accident insurance, workmen compensation and medical claims	-	-	-	-
Capital leases	-	152	-	-
Other long-term liabilities	7,026	303	3,114	-
Total noncurrent liabilities	7,026	54,336	397,455	7,845
Total liabilities	7,037	146,077	410,650	8,129
NET ASSETS (DEFICIT):				
Invested in capital assets, net of related debt	-	34,517	99,339	-
Restricted for:				
Trust — nonexpendable	-	-	-	-
Capital projects	-	-	-	-
Debt service	-	-	-	-
Affordable housing and related loan insurance programs	-	-	-	-
Student loans and other educational purpose	-	-	-	-
Other specified purposes	3,892	-	4,555	-
Unrestricted	935	(48,802)	2,797	835
TOTAL NET ASSETS (DEFICIT)	$ 4,827	$ (14,285)	$106,691	$ 835

(Continued)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2012
(In thousands)

LIABILITIES AND NET ASSETS (DEFICIT)	Special Communities Perpetual Trust	State Insurance Fund Corporation	University of Puerto Rico Comprehensive Cancer Center	Nonmajor Component Units Totals
LIABILITIES:				
Current liabilities:				
Accounts payable and accrued liabilities	26,621	162,170	3,404	827,516
Deposits and escrow liabilities	-	-	-	619,236
Due to:				
Primary government	-	-	-	81,130
Component units	-	-	-	427,008
Other governmental entities	-	145	10,801	80,869
Securities lending transactions and reverse repurchase agreements	-	112,060	-	216,985
Interest payable	1,414	-	-	113,022
Deferred revenue	-	24,628	-	92,609
Notes payable, current portion	-	4,489	-	82,179
Bonds payable, current portion	-	-	-	509,335
Accrued compensated absences, current portion	-	13,756	-	57,631
Voluntary termination benefits payable	-	-	-	15,778
Liability for automobile accident insurance, workmen compensation and medical claims	-	188,981	-	346,121
Capital leases	-	624	15	755
Current portion of other long-term liabilities	-	-	-	8,966
Total current liabilities	28,035	506,853	14,220	3,479,140
Noncurrent liabilities:				
Due to:				
Primary government	-	-	-	20,006
Component units	363,639	-	19,886	1,318,043
Other governmental entities	-	-	-	50,308
Securities lending transactions and reverse repurchase agreements	-	-	-	19,000
Deferred revenue	-	-	-	9,487
Notes payable	-	275,162	-	1,550,624
Commonwealth appropriation bonds	-	-	-	110,047
Bonds payable	-	-	-	3,792,919
Accrued compensated absences	-	28,854	-	53,951
Voluntary termination benefits payable	-	-	-	95,038
Liability for automobile accident insurance, workmen compensation and medical claims	-	631,031	-	631,031
Capital leases	-	29,972	-	30,128
Other long-term liabilities	-	83,635	-	212,044
Total noncurrent liabilities	363,639	1,048,654	19,886	7,892,626
Total liabilities	391,674	1,555,507	34,106	11,371,766
NET ASSETS (DEFICIT):				
Invested in capital assets, net of related debt	-	37,965	9,926	1,688,001
Restricted for:				
Trust — nonexpendable	-	-	-	256,932
Capital projects	-	-	141	145,608
Debt service	-	72,600	-	391,168
Affordable housing and related loan insurance programs	108,278	-	-	108,278
Student loans and other educational purpose	-	-	-	10,814
Other specified purposes	-	-	60	115,957
Unrestricted	(363,929)	220,800	2,807	(2,502,482)
TOTAL NET ASSETS (DEFICIT)	$(255,651)	$ 331,365	$12,934	$ 214,276

(Concluded)

COMMONWEALTH OF PUERTO RICO

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012
(In thousands)

		Program Revenues					General Revenues and Transfers								
	Expenses	Charges for Services	Operating Grants and Contributions	Earnings on Investments	Capital Grants and Contributions	Net Revenues (Expenses) and Changes in Net Assets (Deficit)	Payments from (to) Primary Government	Payments from (to) Other Component Units	Grants and Contributions Not Restricted to Specific Programs	Excise Taxes	Interest and Investment Earnings	Other	Change in Net Assets (Deficit)	Net Assets (Deficit), Beginning of Year (as Restated)	Net Assets (Deficit), End of Year
Agricultural Enterprises Development Administration	$ 182,659	$ 97,925	$ -	$ -	$ -	$ (84,734)	$ 89,059	$ -	$ -	$ -	$ 67	$ 9,600	$ 13,992	$ (111,983)	$ (97,991)
Automobile Accidents Compensation Administration	78,403	86,570	-	-	-	8,167	-	-	-	-	4,249	-	12,416	(47,078)	(34,662)
Cardiovascular Center Corporation of Puerto Rico and the Caribbean	92,381	83,901	-	-	-	(8,480)	7,597	-	-	-	155	-	(728)	(42,171)	(42,899)
Company for the Integral Development of the "Península de Cantera"	9,052	-	5,771	-	-	(3,281)	-	-	44	-	84	-	(3,153)	8,304	5,151
Corporation for the "Caño Martin Peña" Enlace Project	4,899	-	-	-	-	(4,899)	5,799	-	-	-	6	1	907	5,256	6,163
Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico	5,906	323	-	-	-	(5,583)	3,703	-	-	-	-	6	(1,874)	13,766	11,892
Culebra Conservation and Development Authority	661	238	-	-	-	(423)	308	-	-	-	-	-	(115)	881	766
Economic Development Bank for Puerto Rico	67,457	67,545	-	-	8,710	8,798	-	-	-	-	647	890	10,335	147,178	157,513
Employment and Training Enterprises Corporation	4,923	4,642	-	-	-	(281)	-	-	-	-	-	31	(250)	(1,869)	(2,119)
Farm Insurance Corporation of Puerto Rico	9,592	4,589	1,177	-	-	(3,826)	-	-	-	-	153	-	(3,673)	10,778	7,105
Fine Arts Center Corporation	8,675	1,978	-	-	-	(6,697)	5,127	-	-	-	89	-	(1,481)	21,912	20,431
Governing Board of the 9-1-1 Service	13,652	20,461	-	-	-	6,809	(10,600)	-	-	-	241	1,655	(1,895)	42,333	40,438
Institute of Puerto Rican Culture	27,851	-	-	-	947	(26,904)	14,856	-	-	-	-	(3,896)	(15,944)	84,913	68,969
Institutional Trust of the National Guard of Puerto Rico	7,572	5,219	-	-	-	(2,353)	-	-	-	-	4,513	-	2,160	86,648	88,808
Land Authority of Puerto Rico	32,225	11,508	-	-	-	(20,717)	45,096	-	-	-	144	228	24,751	(8,198)	16,553
Musical Arts Corporation	9,372	442	-	-	-	(8,930)	7,517	-	-	-	202	225	(986)	(3,600)	(4,586)
National Parks Company of Puerto Rico	54,856	9,129	-	-	243	(45,484)	21,857	-	-	-	117	687	(22,823)	155,871	133,048
Port of the Americas Authority	1,273	-	-	-	-	(1,273)	17,315	-	-	-	2	-	16,044	61,231	77,275
Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives	17,938	21,955	3,004	-	-	7,021	-	-	-	-	9,804	-	16,825	168,706	185,531
Puerto Rico Conservatory of Music Corporation	15,121	2,822	947	-	24	(11,328)	12,278	-	1,949	-	4	76	2,979	74,508	77,487
Puerto Rico Convention Center District Authority	72,409	28,076	-	-	-	(44,333)	12,281	34,326	-	-	307	-	2,581	197,177	199,758
Puerto Rico Council on Education	32,443	525	1,903	-	-	(30,015)	28,802	-	-	-	18	60	(1,135)	9,217	8,082
Puerto Rico Industrial Development Company	88,505	63,118	-	-	2,258	(23,129)	-	-	-	-	9,924	19,098	5,893	310,313	316,206
Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority	1,541	1,502	-	-	-	(39)	-	-	-	-	13,520	-	13,481	(4,093)	9,388
Puerto Rico Infrastructure Financing Authority	270,598	3,525	-	91,710	-	(175,363)	211,569	-	-	-	313	-	36,519	(1,562,923)	(1,526,404)
Puerto Rico Land Administration	10,228	10,495	-	-	-	267	-	-	-	-	280	747	1,294	200,743	202,037
Puerto Rico and Municipal Islands Transport Authority	44,432	4,730	1,162	-	2,493	(36,047)	33,500	-	-	-	-	-	(2,547)	(8,108)	(10,655)
Puerto Rico Medical Services Administration	193,414	122,571	-	-	-	(70,843)	23,892	-	-	-	1,668	11	(45,272)	(182,464)	(227,736)
Puerto Rico Metropolitan Bus Authority	104,713	5,395	14,393	-	2,178	(82,747)	71,741	-	-	-	3	-	(11,003)	(14,333)	(25,336)
Puerto Rico Municipal Finance Agency	50,127	-	-	-	-	(50,127)	-	-	-	-	57,086	75	7,034	62,552	69,586
Puerto Rico Ports Authority	243,440	176,714	20,254	-	-	(46,472)	5,139	-	-	-	536	10,075	(30,722)	237,442	206,720
Puerto Rico Public Broadcasting Corporation	27,730	3,650	-	-	-	(24,080)	16,305	-	3,276	-	4	265	(4,230)	13,811	9,581
Puerto Rico Public Private Partnerships Authority	18,852	23,511	-	-	-	4,659	-	-	-	-	1	-	4,660	(11,276)	(6,616)
Puerto Rico School of Plastic Arts	5,936	794	1,913	-	-	(3,229)	2,229	-	-	-	151	-	(849)	10,490	9,641
Solid Waste Authority	25,270	1,266	-	-	-	(24,004)	22,100	-	-	-	202	201	(1,501)	79,936	78,435
Puerto Rico Telephone Authority	106	-	-	-	-	(106)	-	-	-	-	11	-	(95)	4,922	4,827
Puerto Rico Tourism Company	172,633	170,052	-	-	-	(2,581)	1,319	(105,217)	-	58,468	523	-	(47,488)	33,203	(14,285)
Puerto Rico Trade and Export Company	40,550	16,556	-	-	-	(23,994)	-	-	-	-	18,613	3,094	(2,287)	108,978	106,691
Local Redevelopment Authority Roosevelt Road Puerto Rico	2,324	86	-	-	1,973	(265)	1,100	-	-	-	-	-	835	-	835
Special Communities Perpetual Trust	42,505	-	-	-	-	(42,505)	29,538	-	-	-	754	18	(12,195)	(243,456)	(255,651)
State Insurance Fund Corporation	692,225	636,541	-	-	-	(55,684)	(51,342)	-	-	-	60,123	(125)	(47,028)	378,393	331,365
University of Puerto Rico Comprehensive Cancer Center	9,563	-	1,417	-	-	(8,146)	7,976	-	-	-	2	-	(168)	13,102	12,934
Total nonmajor component units	$2,794,012	$1,688,354	$51,941	$91,710	$18,826	$(943,181)	$636,061	$ (70,891)	$5,269	$58,468	$184,516	$43,022	$(86,736)	$ 301,012	$ 214,276

See accompanying independent auditor's report.

STATISTICAL SECTION

STATISTICAL SECTION (UNAUDITED)

This part of the Commonwealth of Puerto Rico's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Commonwealth's overall financial health. The following are the categories of the various schedules that are included in this Section:

Contents Pages

These schedules contain trend information to help the reader understand how the Commonwealth's financial performance and well-being have changed over time.

This schedule contains information to help the reader assess the Commonwealth's most significant local revenue sources.

These schedules present information to help the reader assess the affordability of the Commonwealth's current levels of outstanding debt and the Commonwealth's ability to issue additional debt in the future.

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Commonwealth's financial activities take place.

This schedule contains service data to help the reader understand how the information in the Commonwealth's financial report relates to the services the government provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

SCHEDULES OF FINANCIAL TRENDS INFORMATION

COMMONWEALTH OF PUERTO RICO

CHANGES IN NET ASSETS (DEFICIT) (UNAUDITED)
LAST TEN FISCAL YEARS
ACCRUAL BASIS OF ACCOUNTING
(In thousands)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
EXPENSES:										
Governmental activities:										
General government	$ 3,989,149	$ 2,880,614	$ 3,156,646	$ 2,460,391	$ 2,592,834	$ 2,847,596	$ 2,844,494	$ 1,827,816	$ 1,963,879	$ 2,324,715
Public safety	2,227,507	2,205,782	2,228,000	2,247,480	2,161,265	1,983,782	2,217,294	2,580,951	1,950,635	1,606,272
Health	2,926,901	3,022,000	2,843,744	2,858,750	2,471,960	1,943,582	1,422,813	2,364,110	2,386,735	1,903,811
Public housing and welfare	3,658,873	3,937,901	3,726,041	3,560,871	3,194,945	3,157,877	3,287,559	3,443,886	2,919,315	3,239,366
Education	4,729,574	4,469,337	4,543,362	5,280,249	4,571,722	4,748,008	4,110,669	5,000,686	3,684,331	3,375,815
Economic development	785,918	517,921	292,037	779,449	471,640	554,271	564,447	1,006,945	896,925	451,945
Payment of obligations of component units	458,207	6,411	196,898	136,415	-	-	-	-	-	-
Intergovernmental	374,127	430,941	533,939	613,033	474,023	593,264	440,390	-	591,237	466,762
Interest and other	1,957,885	1,807,230	1,648,875	1,128,918	1,086,906	863,723	882,163	845,556	778,700	671,228
Total governmental activities	21,108,141	19,278,137	19,169,542	19,065,556	17,025,295	16,692,103	15,769,829	17,069,950	15,171,757	14,039,914
Business-type activities:										
Lotteries	722,620	697,746	720,992	723,287	699,005	679,274	670,425	699,407	731,344	695,888
Unemployment	486,342	635,145	820,261	467,788	269,924	192,484	207,483	197,967	142,652	343,243
Other	34,237	40,044	20,180	31,947	28,738	26,860	25,043	32,437	26,763	22,385
Total business-type activities	1,243,199	1,372,935	1,561,433	1,223,022	997,667	898,618	902,951	929,811	900,759	1,061,516
Total primary government expenses	22,351,340	20,651,072	20,730,975	20,288,578	18,022,962	17,590,721	16,672,780	17,999,761	16,072,516	15,101,430
PROGRAM REVENUES:										
Governmental activities:										
Charges for services	560,313	632,005	600,473	758,427	664,505	757,724	828,993	702,691	769,207	757,116
Operating grants and contributions	6,531,687	6,006,310	6,536,125	5,541,715	4,311,592	4,773,174	4,365,711	4,096,204	1,038,776	3,830,639
Earnings on investments	-	-	-	-	-	-	-	-	-	-
Capital grants and contributions	152,591	457,725	129,947	110,847	137,916	257,514	100,990	121,083	2,592,055	173,644
Total governmental activities	7,244,591	7,096,040	7,266,545	6,410,989	5,114,013	5,788,412	5,295,694	4,919,978	4,400,038	4,761,399
Business-type activities:										
Charges for services	1,219,769	1,192,724	1,218,613	1,206,080	1,161,084	1,140,539	1,149,426	1,187,009	1,136,705	1,132,285
Operating grants and contributions	364,219	450,689	544,393	245,770	77,803	43,480	59,613	22,315	59,728	97,033
Total business-type activities	1,583,988	1,643,413	1,763,006	1,451,850	1,238,887	1,184,019	1,209,039	1,209,324	1,196,433	1,229,318
NET (EXPENSE) REVENUE:										
Governmental activities	(13,863,550)	(12,182,097)	(11,902,997)	(12,654,567)	(11,911,282)	(10,903,691)	(10,474,135)	(12,149,972)	(10,771,719)	(9,278,515)
Business-type activities	340,789	270,478	201,573	228,828	241,220	285,401	306,088	279,513	295,674	167,802
TOTAL PRIMARY GOVERNMENT NET EXPENSE	$ (13,522,761)	$ (11,911,619)	$ (11,701,424)	$ (12,425,739)	$ (11,670,062)	$ (10,618,290)	$ (10,168,047)	$ (11,870,459)	$ (10,476,045)	$ (9,110,713)

COMMONWEALTH OF PUERTO RICO

CHANGES IN NET ASSETS (DEFICIT) (UNAUDITED)
LAST TEN FISCAL YEARS
ACCRUAL BASIS OF ACCOUNTING
(In thousands)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
GENERAL REVENUES:										
Governmental activities:										
Taxes:										
Income	$ 4,037,400	$ 4,726,036	$ 4,857,035	$ 5,424,476	$ 5,493,881	$ 6,488,211	$ 6,255,391	$ 5,526,006	$ 5,191,080	$ 4,941,128
Excise	2,695,543	2,106,784	1,145,538	1,118,283	1,318,866	1,475,311	2,013,998	2,101,216	1,924,610	1,894,729
Sales and use tax	1,144,659	1,129,006	1,087,053	1,089,073	910,609	583,639	-	-	-	-
Property taxes	66,375	233,703	227,812	-	-	-	-	-	-	-
Other	84,727	83,589	98,531	103,348	11,356	4,663	15,145	7,128	19,211	3,055
Revenue from global tobacco settlement agreement	72,491	71,097	75,584	90,073	82,608	69,604	66,796	106,521	70,420	101,849
Unrestricted investment earnings (losses)	(191,479)	71,144	(42,682)	114,699	160,926	176,674	117,080	116,686	60,585	85,565
Revenue from component units	85,573	84,610	76,758	386,182	74,389	311,732	68,745	474,069	175,729	111,752
Grants and contributions not restricted to specific programs	-	-	114,739	115,176	120,006	135,916	196,721	102,691	5,706	103,423
Special items	-	-	-	175,102	3,749,348	-	(2,485)	-	(35,646)	(203,514)
Gain on sale of assets	-	-	-	-	-	-	19,588	-	-	-
Transfers	219,794	230,551	265,852	251,170	309,815	342,743	242,642	492,796	203,258	279,060
Other	156,966	163,184	166,517	96,696	299,631	71,187	203,525	322,185	384,719	214,381
Total governmental activities	8,372,049	8,899,704	8,072,737	8,964,278	12,531,435	9,659,680	9,197,146	9,249,298	7,999,672	7,531,428
Business-type activities:										
Unrestricted investment earnings	12,029	17,900	21,260	20,036	35,423	37,177	33,165	32,284	23,831	77,362
Revenue from component units	-	-	-	-	-	-	-	-	-	1,038
Grants and contributions not restricted to specific programs	-	-	-	-	-	-	-	-	-	-
Transfers	(219,794)	(230,551)	(265,852)	(251,170)	(309,815)	(342,743)	(242,642)	(492,796)	(203,258)	(279,060)
Total business-type activities	(207,765)	(212,651)	(244,592)	(231,134)	(274,392)	(305,566)	(209,477)	(460,512)	(179,427)	(200,660)
Total primary government	8,164,284	8,687,053	7,828,145	8,733,144	12,257,043	9,354,114	8,987,669	8,788,786	7,820,245	7,330,768
CHANGE IN NET ASSETS:										
Governmental activities	(5,491,501)	(3,282,393)	(3,830,260)	(3,690,289)	620,153	(1,244,011)	(1,276,989)	(2,900,674)	(2,772,047)	(1,747,087)
Business-type activities	133,024	57,827	(43,019)	(2,306)	(33,172)	(20,165)	96,611	(180,999)	116,247	(32,858)
TOTAL PRIMARY GOVERNMENT	$ (5,358,477)	$ (3,224,566)	$(3,873,279)	$(3,692,595)	$ 586,981	$(1,264,176)	$(1,180,378)	$(3,081,673)	$(2,655,800)	$(1,779,945)

COMMONWEALTH OF PUERTO RICO

NET ASSETS (DEFICIT) BY COMPONENT (UNAUDITED)
LAST TEN FISCAL YEARS
ACCRUAL BASIS OF ACCOUNTING
(In thousands)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
GOVERNMENTAL ACTIVITIES:										
Invested in capital assets — net of related debt	$ 3,473,838	$ 3,691,871	$ 3,866,328	$ 3,888,495	$ 3,979,308	$ 3,635,271	$ 3,485,882	$ 3,774,098	$ 3,133,230	$ 1,969,864
Restricted	2,273,099	2,067,282	2,941,461	979,094	713,814	331,051	280,078	296,692	-	19,749
Unrestricted deficit	(45,747,573)	(40,267,354)	(38,031,328)	(32,053,838)	(22,385,747)	(22,405,216)	(20,975,523)	(19,987,579)	(16,789,576)	(13,942,397)
TOTAL GOVERNMENTAL ACTIVITIES NET DEFICIT	$ (40,000,636)	$ (34,508,201)	$ (31,223,539)	$ (27,186,249)	$ (17,692,625)	$ (18,438,894)	$ (17,209,563)	$ (15,916,789)	$ (13,656,346)	$ (11,952,784)
BUSINESS-TYPE ACTIVITIES:										
Invested in capital assets — net of related debt	$ 1,726	$ 1,660	$ 1,586	$ 682	$ 674	$ 674	$ 1,008	$ 847	$ 1,672	$ 1,895
Restricted	950,753	840,241	505,906	29,209	33,803	910,479	947,507	872,215	853,194	736,947
Unrestricted net assets (deficit)	10,771	(11,675)	289,418	810,038	689,686	(153,818)	(171,015)	(202,212)	(3,037)	(3,260)
TOTAL BUSINESS-TYPE ACTIVITIES NET ASSETS	$ 963,250	$ 830,226	$ 796,910	$ 839,929	$ 724,163	$ 757,335	$ 777,500	$ 670,850	$ 851,829	$ 735,582
PRIMARY GOVERNMENT:										
Invested in capital assets — net of related debt	$ 3,475,564	$ 3,693,531	$ 3,867,914	$ 3,889,177	$ 3,979,982	$ 3,635,945	$ 3,486,890	$ 3,774,945	$ 3,134,902	$ 1,971,759
Restricted	3,223,852	2,907,523	3,447,367	1,008,303	747,617	1,241,530	1,227,585	1,168,907	853,194	756,696
Unrestricted deficit	(45,736,802)	(40,279,029)	(37,741,910)	(31,243,800)	(21,696,061)	(22,559,034)	(21,146,538)	(20,189,791)	(16,792,613)	(13,945,657)
TOTAL PRIMARY GOVERNMENT NET DEFICIT	$ (39,037,386)	$ (33,677,975)	$ (30,426,629)	$ (26,346,320)	$ (16,968,462)	$ (17,681,559)	$ (16,432,063)	$ (15,245,939)	$ (12,804,517)	$ (11,217,202)

COMMONWEALTH OF PUERTO RICO

CHANGES IN FUND BALANCES (DEFICIT) OF GOVERNMENTAL FUNDS (UNAUDITED)
ALL GOVERNMENTAL FUND TYPES
LAST TEN FISCAL YEARS
(In thousands)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
REVENUES:										
Taxes:										
Income	$ 4,068,802	$ 4,749,942	$ 5,109,313	$ 5,191,042	$ 5,493,881	$ 6,389,973	$ 6,181,995	$ 5,564,673	$ 5,061,761	$ 4,874,795
Excise	2,695,543	2,106,784	1,145,538	1,118,283	1,306,416	1,475,311	2,013,998	2,101,216	1,924,610	1,894,729
Sales and use tax	1,144,659	1,129,006	1,094,208	1,081,918	910,609	583,639	-	-	-	-
Property taxes	66,375	241,719	227,812	-	-	-	-	-	-	-
Other	90,514	83,589	98,530	103,348	11,356	4,663	15,145	7,128	19,211	3,055
Charges for services	624,069	632,005	600,473	758,427	664,505	757,724	828,993	702,691	750,978	780,905
Intergovernmental	6,778,445	6,126,212	6,655,543	5,767,738	4,569,457	5,166,604	4,663,422	4,319,977	3,654,766	4,107,706
Interest and investment earnings	28,659	28,529	56,145	114,699	160,926	176,674	117,080	116,686	58,914	85,565
Other	315,020	366,101	278,874	540,854	455,439	434,024	334,591	869,338	629,426	436,668
Total revenues all governmental fund types	15,812,086	15,463,887	15,266,436	14,676,309	13,572,589	14,988,612	14,155,224	13,681,709	12,099,666	12,183,423
EXPENDITURES:										
General government	2,027,460	1,284,878	1,830,482	1,512,909	1,769,498	2,537,999	2,489,093	1,675,428	1,777,365	1,774,156
Public safety	2,319,640	2,044,398	2,207,228	2,071,001	2,134,919	1,864,256	2,108,152	2,409,668	1,765,199	1,424,846
Health	2,950,367	2,932,836	2,785,439	2,762,476	2,345,650	1,948,201	1,429,888	2,344,522	2,176,741	1,908,717
Public housing and welfare	3,406,021	3,736,104	3,553,699	3,428,546	3,098,684	3,048,585	3,130,373	3,320,849	2,738,016	2,953,189
Education	4,599,069	4,453,332	4,584,792	5,053,505	4,432,880	4,400,321	4,101,980	4,177,664	3,474,013	3,297,248
Economic development	783,490	460,986	249,899	688,460	415,976	533,253	516,444	706,066	868,926	428,621
Intergovernmental	377,427	430,171	533,762	613,033	470,395	593,247	409,727	-	528,829	465,699
Capital outlays	558,377	452,482	293,298	352,582	429,238	512,824	502,348	665,630	581,788	1,184,976
Payments of obligations of component units	458,207	6,411	196,898	136,415	-	-	-	-	-	-
Debt service:										
Principal	1,871,727	1,845,785	2,009,870	482,742	2,163,704	904,604	446,281	391,554	526,572	330,346
Interest and other	1,683,802	1,601,987	1,369,445	1,094,142	1,037,136	814,723	822,234	733,931	737,502	1,158,749
Total expenditures all governmental fund types	21,035,587	19,249,370	19,614,812	18,195,811	18,298,080	17,158,013	15,956,520	16,425,312	15,174,951	14,926,547
OTHER FINANCING SOURCES (USES):										
Transfers in	4,886,177	5,704,579	6,296,416	9,974,368	1,305,040	1,165,075	1,423,240	1,745,992	1,034,090	1,664,278
Transfers out	(4,666,383)	(5,474,028)	(6,030,564)	(9,723,198)	(995,225)	(822,332)	(1,180,598)	(1,253,216)	(830,832)	(1,385,218)
Long-term debt issued	3,703,223	1,684,135	4,754,372	5,965,925	1,921,363	1,140,356	1,518,355	1,619,562	3,001,116	2,241,190
Discount on bonds issued	(24,474)	(20,253)	(64,011)	(63,715)	(4,060)	-	(323)	(6,078)	(23,061)	(36,204)
Capital leases		198	427	292	43,850	2,975	4,580	847	2,300	58,897
Refunding bonds issued	4,482,178	1,364,475	1,163,735	237,875	2,086,240	379,498	-	-	2,372,689	1,754,686
Sale of capital assets	1,434	4,081	2,431	158,940	-	-	-	-	-	-
Upfront fee on swap agreements	-	-	-	35,980	-	-	-	-	-	-
Proceeds from termination of swap agreements	-	-	12,231	-	-	-	-	-	-	-
Termination fee on swap agreements	(550,855)	(23,854)	(40,849)	(74,671)	-	-	-	-	-	-
Payment for refunding of bonds	(2,822,288)	(483,515)	(1,047,297)	(183,000)	-	-	-	-	-	-
Bond proceeds — premium	42,888		18,045	34,842	-	-	-	-	-	-
Special item: payment of debt by COFINA	-	-	-	-	3,749,348	-	-	-	-	-
Special item: escrow restructuring	-	-	-	175,102	-	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	(4,507,828)	-	-	-	(2,316,910)	(1,754,686)
Other	-	-	-	-	106,107	-	54,135	-	-	-
Total other financing sources all governmental fund types	5,051,900	2,755,818	5,064,936	6,538,740	3,704,835	1,865,572	1,819,389	2,107,107	3,239,392	2,542,943
NET CHANGE IN FUND BALANCES (DEFICIT)	$ (171,601)	$ (1,029,665)	$ 716,560	$ 3,019,238	$ (1,020,656)	$ (303,829)	$ 18,093	$ (636,496)	$ 164,107	$ (200,181)

COMMONWEALTH OF PUERTO RICO

FUND BALANCE (DEFICIT) OF GOVERNMENTAL FUNDS (UNAUDITED)
LAST TEN FISCAL YEARS
MODIFIED-ACCRUAL BASIS OF ACCOUNTING
(In thousands)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
GENERAL FUND:										
Nonspendable	$ 94,559	$ 17,747	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Spendable:										
Restricted	181,133	551,699	-	-	-	-	-	-	-	-
Committed	633,659	629,591	-	-	-	-	-	-	-	-
Assigned	22,056	14,512	-	-	-	-	-	-	-	-
Unassigned	(2,037,963)	(1,464,609)	-	-	-	-	-	-	-	-
Reserved	-	-	1,252,903	1,247,211	723,634	993,320	770,628	810,314	1,102,232	262,758
Unreserved	-	-	(1,800,199)	(2,682,838)	(2,494,519)	(1,504,478)	(1,154,383)	(1,321,585)	(1,468,182)	(342,941)
Total General Fund	(1,106,556)	(251,060)	(547,296)	(1,435,627)	(1,770,885)	(511,158)	(383,755)	(511,271)	(365,950)	(80,183)
ALL OTHER GOVERNMENTAL FUNDS:										
Spendable:										
Restricted	2,105,562	1,515,583	-	-	-	-	-	-	-	-
Committed	310,751	308,763	-	-	-	-	-	-	-	-
Assigned	165,742	74,752	-	-	-	-	-	-	-	-
Unassigned	1,608	-	-	-	-	-	-	-	-	-
Reserved	-	-	2,393,393	2,053,409	11,667	125,756	73,346	45,546	72,455	33,047
Unreserved reported in:										
Debt service funds	-	-	482,301	668,132	127,577	131,782	143,732	156,564	119,830	168,928
Special revenue funds	-	-	114,768	249,891	200,929	137,286	358,452	256,949	449,455	506,252
Capital project funds	-	-	233,679	424,480	520,576	223,443	219,163	437,923	744,577	228,215
Total all other governmental funds	2,583,663	1,899,098	3,224,141	3,395,912	860,749	618,267	794,693	896,982	1,386,317	936,442
TOTAL FUND BALANCE	$ 1,477,107	$ 1,648,038	$ 2,676,845	$ 1,960,285	$ (910,136)	$ 107,109	$ 410,938	$ 385,711	$ 1,020,367	$ 856,259

Note: In fiscal year 2011, the fund balance classifications were changed to conform to the requirements of GASB 54.

SCHEDULE OF REVENUE CAPACITY

COMMONWEALTH OF PUERTO RICO

GENERAL FUND NET REVENUES FOR THE LAST TEN FISCAL YEARS (UNAUDITED)
(In thousands)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Excises on off-shore shipments rum	$ 302,308	$ 330,181	$352,301	$404,265	$356,827	$377,872	$ 346,272	$ 341,166	$ 328,921	$ 309,958
Custom duties	7,739	-	-	3,269	4,846	14,504	9,553	26,731	34,266	25,918
From noninternal revenues	310,047	330,181	352,301	407,534	361,673	392,376	355,825	367,897	363,187	335,876
Miscellaneous	240,857	346,580	314,754	284,436	466,742	330,064	331,803	430,534	379,501	314,857
Transfer from nonbudgeted funds	-	-	-	-	-	-	-	-	-	123,600
Electronic lottery	56,163	55,690	80,006	75,213	105,298	71,815	55,212	68,011	86,115	89,443
Traditional lottery	38,225	46,164	42,826	51,480	46,636	73,014	62,729	64,638	65,387	67,621
Nontax revenues	335,245	448,434	437,586	411,129	618,676	474,893	449,744	563,183	531,003	595,521
Alcoholic beverages and others	13,927	18,197	15,339	14,307	16,014	15,179	14,804	14,528	14,200	13,518
Entertainment machines	236	251	18,712	19,263	19,682	16,930	16,981	15,019	14,393	13,932
Motor vehicles	62,483	62,933	61,717	62,853	51,994	65,501	59,525	55,669	55,638	58,426
Licenses	76,646	81,381	95,768	96,423	87,690	97,610	91,310	85,216	84,231	85,876
Others	4,299	3,478	1,864	5,159	7,224	20,235	25,681	29,927	24,334	20,539
Hotel rooms	-	-	-	-	-	-	-	-	-	9,056
5% general excise tax	-	-	-	-	-	193,949	551,723	557,323	535,381	505,709
Crude oil and derived products	-	-	-	-	-	-	-	-	-	12,925
Slot machines	25,504	24,073	23,273	23,764	23,492	23,128	23,167	85,513	76,966	90,018
Cement	1,171	1,128	1,195	1,555	2,054	2,627	2,919	3,228	3,432	3,279
Insurance premiums	23,382	23,785	24,089	26,816	42,060	39,052	43,055	28,324	27,217	26,771
Horse races	19,302	20,983	22,862	25,245	26,783	29,321	30,786	31,463	28,865	28,872
Motor vehicle	386,468	364,188	350,764	310,920	366,341	396,667	533,957	606,662	551,181	499,252
Petroleum products	3,846	4,203	4,695	4,335	8,401	6,028	5,146	5,143	4,934	5,860
Foráneas (Ley 54)	1,875,823	677,565	-	-	-	-	-	-	-	-
Cigarettes	172,155	201,965	182,501	129,429	119,124	132,399	135,267	146,527	144,733	149,487
General taxes — total	2,511,950	1,321,368	611,243	527,223	595,479	843,406	1,351,701	1,494,110	1,397,043	1,351,768

(Continued)

COMMONWEALTH OF PUERTO RICO

GENERAL FUND NET REVENUES FOR THE LAST TEN FISCAL YEARS (UNAUDITED)
(In thousands)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Other beverages	$ 22,831	$ 20,158	$ 19,081	$ 19,248	$ 19,026	$ 18,932	$ 18,745	$ 19,692	$ 17,428	$ 17,884
Beer	217,126	209,568	211,785	203,386	198,879	207,813	219,379	221,902	217,568	223,309
Distilled spirits	52,657	51,237	53,930	54,767	50,189	52,283	54,056	56,641	61,306	58,389
Alcoholic beverages — total	292,614	280,963	284,796	277,401	268,094	279,028	292,180	298,235	296,302	299,582
Excise taxes — total	2,804,564	1,602,931	896,039	804,624	863,573	1,122,434	1,643,881	1,792,345	1,693,345	1,651,350
Sales and use tax	540,026	531,837	540,348	797,194	911,000	582,560	-	-	-	-
Inheritance and gift taxes	5,465	3,101	3,617	5,064	6,600	4,663	9,466	7,129	15,691	2,825
Taxes on dividends to 10%	35,087	26,756	29,774	48,663	59,770	138,859	66,721	80,398	70,192	49,790
Interest subject to 17%	6,807	6,985	9,902	11,738	13,657	12,112	11,536	10,489	10,108	11,278
Tollgate tax	27,678	12,607	15,034	19,372	21,610	25,083	27,396	22,973	31,579	45,321
Withholding to nonresidents	890,761	1,000,428	830,352	1,081,739	1,087,782	933,728	921,260	612,005	631,100	517,141
Partnerships	1,333	3,249	1,688	1,839	1,942	2,960	2,787	3,245	3,005	2,101
Corporations	1,460,354	1,677,345	1,682,321	1,375,596	1,565,534	2,002,718	1,872,458	1,870,937	1,831,027	1,776,985
Individuals	2,129,434	2,187,080	2,593,598	2,648,261	2,759,305	3,071,655	3,087,748	2,885,903	2,720,920	2,767,678
Income taxes — total	5,096,945	5,449,388	5,706,634	5,989,466	6,427,200	6,774,338	5,999,372	5,493,079	5,313,622	5,173,119
Property taxes	44,438	246,619	227,812	1,011	219	800	1,106	3,949	-	-
Tax revenues	8,022,593	7,379,701	6,926,253	6,891,524	7,378,682	7,995,182	7,735,669	7,374,589	7,091,198	6,910,345
From internal revenues	8,357,838	7,828,135	7,363,839	7,302,653	7,997,358	8,470,075	8,185,413	7,937,772	7,622,201	7,505,866
Total	$8,667,885	$8,158,316	$7,716,140	$7,710,187	$8,359,031	$8,862,451	$8,541,238	$8,305,669	$7,985,388	$7,841,742

Note: The net revenues presented above include the actual revenues and the operating transfers-in from other funds presented in the statement of revenues and expenditures — budget and actual — budget basis.

Source: Puerto Rico Treasury Department.

(Concluded)

SCHEDULES OF DEBT CAPACITY INFORMATION

COMMONWEALTH OF PUERTO RICO

LEGAL DEBT MARGIN INFORMATION (UNAUDITED)
LAST TEN FISCAL YEARS
(In thousands)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Internal revenue average for two years	$ 8,092,987	$7,592,395	$ 7,333,246	$ 7,650,006	$ 8,233,717	$ 8,327,744	$ 8,061,593	$ 7,779,987	$ 7,564,034	$ 7,185,660
Legal debt limit — 15% of internal revenue average for two years	1,213,948	1,138,859	1,099,987	1,147,501	1,235,058	1,249,162	1,209,239	1,166,998	1,134,605	1,077,849
Maximum debt service requirement	964,416	876,205	826,812	785,298	785,298	719,927	680,742	630,685	598,547	599,611
Additional legal debt service requirement margin	249,532	262,654	273,175	362,203	449,760	529,235	528,497	536,313	536,058	478,238
Total maximum debt service requirement as a percentage of internal revenue average for two years	11.92 %	11.54 %	11.27 %	10.27 %	9.54 %	8.64 %	8.44 %	8.11 %	7.91 %	8.34 %

Legal debt margin calculation for fiscal year 2012:	
Internal revenue for the year ended June 30, 2011	$ 7,828,135
Internal revenue for the year ended June 30, 2012	8,357,838
Total internal revenue for the years ended June 30, 2011 and 2012	16,185,973
Internal revenue average for the two years	8,092,987
Legal debt limit — 15% of internal revenue average for the two years	1,213,948
Maximum debt service requirement	964,416
Additional legal debt service requirement as a percentage of internal revenue average for two years	$ 249,532

Sources: Government Development Bank for Puerto Rico, General obligation debt service may not exceed 15% of the average of the internal revenues for the last two fiscal years.

COMMONWEALTH OF PUERTO RICO

RATIO OF ANNUAL DEBT SERVICE FOR GENERAL
BONDED DEBT TO TOTAL GENERAL EXPENDITURES (UNAUDITED)
LAST TEN FISCAL YEARS
(In thousands)

	Total Debt Service	Total Governmental Expenditures	Ratio
Fiscal year:			
2012	$ 745,210	$ 21,035,587	3.5 %
2011	722,456	19,249,370	3.7
2010	936,971	19,614,812	4.8
2009	413,967	18,195,811	2.3
2008	671,917	18,298,080	3.7
2007	606,800	17,158,013	3.5
2006	565,137	15,849,707	3.6
2005	491,394	16,425,312	3.0
2004	459,336	15,174,951	3.0
2003	362,136	14,926,547	2.4

SCHEDULES OF DEMOGRAPHIC AND ECONOMIC INFORMATION

COMMONWEALTH OF PUERTO RICO

DEMOGRAPHIC AND ECONOMIC STATISTICS (UNAUDITED)
LAST TEN FISCAL YEARS

	Population *	Per Capita Income	Median Age	Life Expectancy (Years) (1)	School Enrollment	Labor Force (in thousands)	Unemployment Rate (%)	Gross Product (Current Prices $)**	Real Gross Product (2000 Prices $)**
Fiscal year:									
2012	3,667 (p)	16,934	37.9	79.0	588,384	1,221	15.2 (p)	69,462 (p)	41,419 (p)
2011	3,694 (r)	16,611 (r)	37.0	77.7	620,622	1,249	16.2 (r)	65,567 (r)	39,508
2010	3,722 (r)	16,078 (r)	36.3	77.7	671,154	1,285	16.3 (r)	64,295 (r)	39,907
2009	3,740 (r)	15,739 (r)	36.3	77.7	649,692	1,325	13.7 (r)	63,618 (r)	41,464
2008	3,761 (r)	15,155 (r)	37.5	77.7	685,348	1,355	11.2 (r)	62,703 (r)	43,205
2007	3,783 (r)	14,030 (r)	37.0	77.7	710,861	1,413	10.6 (r)	60,643 (r)	44,475
2006	3,805 (r)	13,627 (r)	36.5	77.7	731,644	1,410	11.0 (r)	57,584 (r)	45,009
2005	3,821 (r)	13,056 (r)	36.0	77.7	714,306	1,357	10.6	54,862 (r)	44,785
2004	3,827 (r)	12,199 (r)	35.6	77.2	764,861	1,339	11.4	51,827 (r)	43,950
2003	3,826 (r)	11,825 (r)	35.1	77.5	746,500	1,337	12.1	48,492 (r)	42,795

Source: Puerto Rico Planning Board, Department of Education, Department of Labor and Human Resources, and General Council of Education of the Commonwealth of Puerto Rico. The enrollment in private schools is an estimate.

* Population as of July 1 (in thousands).
** Amounts expressed in millions.
(1) Based on most recent study of 2006.
(p) Preliminary figures.
(r) Revised figures.

COMMONWEALTH OF PUERTO RICO

AVERAGE EMPLOYMENT BY SECTOR (UNAUDITED)
LAST TEN FISCAL YEARS
(In thousands)

Sector	2012 (p)	2011 (r)	2010 (r)	2009	2008	2007	2006	2005	2004	2003
Agriculture	17	17	17	18	15	16	22	25	25	24
Manufacturing	95	97	101	111	128	137	135	135	134	132
Mining	a/	1	a/	a/	1	a/	a/	a/	a/	a/
Construction	50	48	54	70	84	98	88	85	86	81
Trade	231	234	237	242	256	262	269	256	249	250
Finance, insurance, and real estate	34	39	40	42	42	44	46	42	41	42
Transportation, communications, and public utilities	40	48	57	57	54	54	56	58	53	55
Services	342	333	319	344	354	363	351	342	335	325
Government (1)	225	230	250	259	269	290	285	268	264	266
Total	1,034	1,047	1,075	1,143	1,203	1,264	1,252	1,211	1,187	1,175

(p) Preliminary figures.
(r) Revised figures.
a/ Less than 1,000.

COMMONWEALTH OF PUERTO RICO

TOURISM INDICATORS (UNAUDITED)
LAST TEN FISCAL YEARS

	2012 (p)	2011 (r)	2010 (r)	2009 (r)	2008 (r)	2007 (r)	2006 (r)	2005 (r)	2004 (r)	2003 (r)
All hotels and hostelry registration	3,321,709	2,130,325	2,030,941	1,936,662	1,196,890	2,044,097	2,160,455	2,097,606	2,008,730	1,964,963
Occupancy rates	67.9 %	66.2 %	66.2 %	63.4 %	67.6 %	68.7 %	67.9 %	67.7 %	68.9 %	64.9 %
Number of rooms	14,211	14,335	13,392	13,392	13,255	13,403	13,439	13,336	12,766	12,854
Visitors' expenditures*	$ 3,193	$ 3,143	$ 3,211	$ 3,176	$ 3,535	$ 3,414	$ 3,369	$ 3,239	$ 3,024	$ 2,677

* Amounts expressed in millions of dollars.
(p) Preliminary figures.
(r) revised figures

Sources: Puerto Rico Tourism Company and Puerto Rico Planning Board.

SCHEDULE OF OPERATING INFORMATION

COMMONWEALTH OF PUERTO RICO

OPERATING INDICATORS BY FUNCTION (UNAUDITED)
LAST TEN FISCAL YEARS

Function	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Fire protection:										
Number of stations	95	94	95	95	95	94	94	94	98	93
Fire personnel and officers	1,825	1,713	1,889	2,225	2,232	2,232	2,233	2,233	1,851	1,894
Calls answered	10,676	11,013	14,021	9,698	10,146	10,441	10,435	11,514	10,716	12,340
Building inspections conducted	73,301	76,407	76,246	83,626	71,006	73,478	73,360	71,610	56,093	53,750
Police protection:										
Number of stations	192	192	210	193	233	238	238	234	231	228
Police personnel and officers	17,965	18,333	18,274	18,834	19,422	19,069	20,552	20,806	21,185	21,079
Calls answered	6,389	7,050	7,271	7,451	7,258	7,101	7,146	7,178	6,907	5,538
Water system:										
Customers	1,307,436	1,290,800	1,279,757	1,265,798	1,257,336	1,290,497	1,285,732	1,251,699	1,256,981	1,238,461
Personnel	5,076	4,919	5,001	5,617	5,839	5,830	5,544	5,459	5,442	5,580
Water consumption (millions of cubic meters)	316	317	325	331	327	350	365	356	359	350
Electric distribution system:										
Customers	1,469,541	1,475,126	1,469,493	1,458,636	1,449,221	1,452,529	1,450,227	1,438,699	1,419,602	1,401,301
Personnel	8,626	8,659	8,804	9,332	9,429	9,444	9,541	9,712	9,635	9,646
Electricity consumption (millions of kilowatt)	18,112	18,501	19,235	18,516	19,602	20,672	20,620	20,507	20,260	19,887
Electricity production (millions of kilowatt)	22,192	22,631	23,580	22,651	23,935	25,082	24,870	24,500	24,100	23,717
Education:										
Enrollment in public schools (1):										
Kindergarten to sixth grade	231,119	246,770	264,049	262,234	276,291	293,781	306,073	323,270	321,653	326,606
Seventh to ninth grade	110,568	114,658	124,343	122,506	128,641	133,171	135,166	137,717	142,305	146,896
Tenth to twelfth grade	92,922	97,203	104,731	103,255	108,028	117,205	122,251	118,491	116,829	118,519
Teachers actively teaching (in public school)	31,843	39,863	46,472	45,268	45,064	45,124	46,064	46,858	47,286	46,772
Enrollment in private schools:										
Kindergarten to sixth grade	87,034	99,975	11,614	97,004	105,724	103,442	107,358	83,548	117,622	98,719
Seventh to ninth grade	34,175	31,542	32,144	33,510	35,437	33,294	32,850	27,612	37,226	31,245
Tenth to twelfth grade	32,566	30,474	29,773	31,183	31,227	29,968	27,946	23,668	29,226	24,515
Enrollment in universities and colleges:										
Public	59,279	67,291	71,569	69,475	68,132	66,990	68,813	71,044	74,056	74,801
Private	190,732	182,901	177,803	166,143	157,306	158,412	140,734	136,650	132,735	125,041

Source: Various agencies and component units of the Commonwealth of Puerto Rico. The enrollment in private schools is an estimate.
(1) The enrollment in public schools for 2007–2008 don't include the special education by grade.

KPMG

COMMONWEALTH OF PUERTO RICO

Basic Financial Statements

and Required Supplementary Information

June 30, 2013

(With Independent Auditors' Report Thereon)

BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION

Fiscal Year Ended June 30, 2013

Commonwealth of Puerto Rico

Honorable Alejandro García Padilla
Governor

Prepared by:

Puerto Rico Department of the Treasury

Melba Acosta Febo, CPA, Esq.
Secretary of the Treasury

Karolee García Figueroa, CPA, Esq.

Under Secretary of the Treasury

This document is available on the Puerto Rico Department of the Treasury homepage
On the World Wide Web: http://www.hacienda.gobierno.pr

COMMONWEALTH OF PUERTO RICO

Table of Contents

COMMONWEALTH OF PUERTO RICO

Table of Contents

KPMG LLP
American International Plaza
Suite 1100
250 Muñoz Rivera Avenue
San Juan, PR 00918-1819

Independent Auditors' Report

The Honorable Governor and Legislature
Commonwealth of Puerto Rico
San Juan, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Puerto Rico (the Commonwealth), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express opinions on these financial statements based on our audit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following entities, funds and activities:

- *Governmental Activities*
  - Puerto Rico Public Housing Administration, which represents 25.65% and 2.47% of the total assets and revenues, respectively, of the General Fund.
  - Office for the Administration of the Sales and Acquisition Fund of the Puerto Rico Department of Housing, which represents 0.60% and 0.00% of the total assets and revenues, respectively, of the General Fund.
  - Office for the Improvements of Public Schools, which represents 0.90% and 0.00% of the total assets and revenues, respectively, of the General Fund.
  - Labor Development Administration, which represents 0.33% and 0.45% of the total assets and revenues, respectively, of the General Fund.
  - Public Buildings Authority special revenue, debt service, and capital projects funds, which are nonmajor governmental funds that collectively represent 7.54% and 2.67% of the total assets and revenues, respectively, of the aggregate remaining fund information.

- Puerto Rico Infrastructure Financing Authority special revenue, debt service, and capital projects funds, which are nonmajor governmental funds that collectively represent 5.32% and 1.41% of the total assets and revenues, respectively, of the aggregate remaining fund information.
- The Children's Trust special revenue and debt service funds, which are nonmajor governmental funds that collectively represent 2.09% and 0.20% of the total assets and revenues, respectively, of the aggregate remaining fund information.
- Special Communities Perpetual Trust special revenue and debt service funds, which are nonmajor governmental funds that collectively represent 1.30% and 0.08% of the total assets and revenues, respectively, of the aggregate remaining fund information.
- Puerto Rico Maritime Shipping Authority debt service fund, which is a nonmajor governmental fund that represents 0.10% and 0.00% of the total assets and revenues, respectively, of the aggregate remaining fund information.

These entities collectively represent 15.49% and 2.95% of the total assets and revenues, respectively, of the governmental activities.

- *Business-Type Activities*
  - Unemployment Insurance Fund, which is a major enterprise fund.
  - Additional Lottery System, representing 81.53% and 50.13% of the assets and revenues, respectively, of the Lotteries Fund, which is a major enterprise fund.
  - Puerto Rico Medical Services Administration, which is a major enterprise fund.
  - Puerto Rico Water Pollution Control Revolving Fund, which is a major enterprise fund.
  - The Governing Board of 9-1-1 Services, which is a nonmajor enterprise fund, representing 0.44% and 1.08% of the total assets and revenues, respectively, of the aggregate remaining fund information.

  These entities collectively represent 78.64% and 65.35% of the total assets and revenues, respectively, of the business-type activities.

- *Discretely Presented Component Units*

  The discretely presented component units listed in note 1(c) represent 72.28% and 92.09% of the total assets and revenues, respectively, of the aggregate discretely presented component units.

Those financial statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the activities, funds, and component units indicated above, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

KPMG

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

Liquidity Risks and Uncertainties

The Commonwealth has a net deficit of $47.2 billion in the governmental activities and a net deficit of $2.0 billion in the General Fund as of June 30, 2013, which has resulted from operating deficits over the last several years. The Commonwealth's high level of debt and the resulting required allocation of revenues to service this debt have contributed to these deficits and have adversely affected its credit ratings. The Commonwealth expects that its ability to finance budget deficits will be severely limited, and, therefore, it will be required to reduce the amount of resources that fund other important governmental programs and services in order to balance its budget.

The combined unfunded actuarial accrued liability and funded ratio for pension benefits of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), the Commonwealth of Puerto Rico Judiciary Retirement System (JRS), and the Puerto Rico System of Annuities and Pensions for Teachers (TRS) (the Pension Plans), were $33.7 billion and 7.4%, respectively as of June 30, 2103. In the opinion of management, based on information prepared by consulting actuaries, the net position of the ERS, the JRS, and the TRS will be exhausted by the fiscal years 2015, 2019, and 2020, respectively, if measures are not implemented to reduce the unfunded actuarial accrued liability and increase the funded ratio of the Pension Plans.

The Government Development Bank (GDB), a discretely presented component unit of the Commonwealth, has loans to the Commonwealth and its public entities amounting to approximately $6.9 billion or 48% of the GDB's total assets as of June 30, 2013. These loans are expected to be collected through appropriations from, bond issuances of, and revenues generated by the Commonwealth and its public entities. The GDB's liquidity and financial condition depends on the repayment of loans made to the Commonwealth and its public entities which face significant fiscal and financial challenges in their ability to generate sufficient funds from taxes, charges and/or future bond issuances.

The net deficit of the governmental activities and the General Fund, the combined unfunded actuarial accrued liability and the funded ratio of the Pension Plans, and the significant balances of loans due to the GDB present liquidity risks regarding the Commonwealth's ability to meet its financial obligations and to fund all necessary governmental programs and services. The liquidity risks and management's plans are discussed in notes 2 and 17. Our opinions were not modified as a result of this matter.

Puerto Rico Public Corporation Debt Enforcement and Recovery Act

As discussed in note 22 to the financial statements, the Commonwealth enacted the Puerto Rico Public Corporation Debt Enforcement and Recovery Act (the "Debt Enforcement Act"), on June 28, 2014. The Act provides a statutory process for the enforcement and restructuring of the debts and other obligations of certain public corporations experiencing financial distress. As further discussed in note 2, there are various public corporations under financial distress and facing liquidity risk which could seek indebtedness relief under this Act. Such public corporations are reported as discretely presented component units. Our opinions were not modified as a result of this matter.

Puerto Rico Electric Power Authority (PREPA)

The accompanying financial statements have been prepared assuming that the Commonwealth and its component units will continue as going concerns. As discussed in note 2 to the financial statements, PREPA, a discretely presented component unit of the Commonwealth has had material recurring operating deficits, currently has a high level of debt and faces large non-discretionary capital expenditure requirements, while facing a decline in demand for electricity. PREPA currently faces heightened liquidity and market access risk as a result of the maturity in July and August 2014 of two short-term lines of credit in an aggregate principal amount of $671 million. PREPA's management is currently negotiating the renewal of these lines of credit with the corresponding commercial banks. PREPA's ability to repay its outstanding lines of credit is limited and its ability to extend, renew or replace these lines of credit is uncertain. This raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion on the aggregate discretely presented component units is not modified with respect to this matter.

Adoption of New Accounting Pronouncement

As discussed in notes 1(cc) and 3 to the financial statements, effective July 1, 2012, the Commonwealth adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*. Our opinions were not modified as a result of this matter.

Other Matters

Restatement of Net Position and Fund Balance

As part of our audit of the 2013 financial statements we also audited the adjustments described in note 3 that were applied to restate net position and fund balance as of July 1, 2012, except for such adjustments related to those entities that were audited by other auditors as described in the Auditors' Responsibility paragraphs. The Commonwealth's previously issued basic financial statements were audited by other auditors. In our opinion, based on our audit and the reports of other auditors, such adjustments are appropriate and have been properly applied.

KPMG

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 6 through 20, the schedules of funding progress on pages 243 and 244, the schedule of employer contributions on page 245, and the schedule of revenues and expenditures –budget and actual– budgetary basis - General Fund on page 246, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth's basic financial statements. The combining and individual fund financial statements and schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of the other auditors, the combining and individual fund financial statements and schedules are fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

June 30, 2014

Stamp No. E125980 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

COMMONWEALTH OF PUERTO RICO

Management's Discussion and Analysis (Unaudited)

June 30, 2013

Management's discussion and analysis (MD&A) provides a narrative overview and analysis of the financial activities of the Commonwealth of Puerto Rico (the Commonwealth or the Government) for the fiscal year ended June 30, 2013. The MD&A is intended to serve as an introduction to the basic financial statements, which have the following components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. The MD&A is designed to: (a) assist the reader in focusing on significant financial matters; (b) provide an overview of the Commonwealth's financial activities; (c) identify any material changes from the original budget; and (d) highlight individual fund matters. The following presentation is highly summarized and, in order to gain a thorough understanding of the Commonwealth's financial condition, the following financial statements, notes and required supplementary information should be reviewed in their entirety.

Overview of the Financial Statements

The basic financial statements include two kinds of financial statements that present different views of the Commonwealth, the government-wide financial statements and the fund financial statements. These financial statements also include the notes to the basic financial statements that explain information in the financial statements and provide more detail.

Government-Wide Financial Statements

The government-wide financial statements provide readers a broad view of the Commonwealth's operations in a manner similar to a private-sector business. The statements provide both short and long-term information about the Commonwealth's financial position, which assists in assessing the Commonwealth's economic condition at the end of the fiscal year. These are prepared using the economic resources measurement focus and the full accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenue and expenses connected with the fiscal year even if cash involved has not been received or paid. The government-wide financial statements include two statements:

- ***Statement of Net Position*** – This statement presents all of the government's assets, liabilities and deferred outflows and inflows of resources. Net position (deficit) is the difference between (a) assets and deferred outflows of resources, and (b) liabilities and deferred inflows of resources. Over time, increases or decreases in the Commonwealth's net position may serve as a useful indicator of whether the financial position of the Commonwealth is improving or deteriorating.

- ***Statement of Activities*** – This statement presents information showing how the government's net position (deficit) changed during the most recent fiscal year. All changes in net position (deficit) are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the Commonwealth.

Both of the above financial statements have the following columns:

- ***Governmental Activities*** – These activities are mostly supported by taxes and intergovernmental revenue (federal grants). Most services normally associated with the Commonwealth government fall into this

category, including general government, education, public housing and welfare, health, public safety and economic development.

- ***Business Type Activities*** – These activities are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business type activities of the Commonwealth include the operations of the following major funds: the Unemployment Insurance Trust Fund (administered by the Commonwealth's Employment Security Bureau), the Lotteries Fund, the Puerto Rico Medical Services Administration and the Water Pollution Control Revolving Fund.

- ***Component Units*** – These are organizations that are legally separated from the Commonwealth, but either the Commonwealth is financially accountable for them or the nature and significance of their relationship with the Commonwealth are such that their exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. The Commonwealth has both blended and discretely presented component units. Blended component units are presented within the primary government activities. Discretely presented component units are presented in a separate column.

The government-wide financial statements can be found immediately following this management's discussion and analysis.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth uses fund accounting to help ensure and demonstrate compliance with finance related legal requirements. The fund financial statements focus on individual parts of the Commonwealth government, reporting the Commonwealth's operations in more detail than the government-wide financial statements. All of the funds of the Commonwealth can be divided into three categories:

- ***Governmental Funds Financial Statements*** – Most of the basic services provided by the Commonwealth are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of expendable resources. They also focus on the balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as the current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short term view of the Commonwealth's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the Commonwealth. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for the governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances (deficit) provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

The Commonwealth has four major governmental funds. That is, each major fund is presented in a separate column in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances (deficit). The Commonwealth's four major governmental funds are:

– General Fund

– Debt Service Fund

– COFINA Special Revenue Fund

– COFINA Debt Service Fund

The remaining nonmajor governmental funds are grouped and presented in a single column in the governmental funds financial statements. The basic governmental funds financial statements can be found immediately following the government-wide financial statements.

- ***Proprietary Funds Financial Statements*** – These funds are used to show activities that operate more like those of commercial enterprises. Because these funds charge fees for services provided to outside customers, including local governments, they are known as enterprise funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements use the full accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements. The Commonwealth has four major proprietary funds: (i) the Unemployment Insurance Fund; (ii) the Lotteries Fund, which includes the Lottery of Puerto Rico and the Additional Lottery System; (iii) the Puerto Rico Medical Services Administration; and, (iv) and the Water Pollution Control Revolving Fund. Other nonmajor proprietary funds are grouped and presented in a separate column in the proprietary funds financial statements. The basic proprietary funds financial statements can be found immediately following the governmental fund financial statements.

Fiduciary Funds Financial Statements

These funds are used to account for resources held for the benefit of parties outside the Commonwealth government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the Commonwealth's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. They use the full accrual basis of accounting. The Commonwealth's fiduciary funds are: (i) the pension trust funds (three separate retirement systems for employees, which are fiduciary component units of the Commonwealth); (ii) the defined benefit other postemployment (OPEB) plans (three separate other postemployment plans for employees, which are fiduciary component units of the Commonwealth) and (iii) the agency funds (which account for the assets held for distribution by the Commonwealth as an agent for other governmental units, other organizations or individuals). The basic fiduciary funds financial statements can be found immediately following the proprietary funds financial statements.

Component Units Financial Statements

Component units are legally separate entities, for which the Commonwealth has financial accountability, but they have certain independent qualities as well. The government-wide financial statements present information for the component units in a single column on the statement of net position (deficit). Also, some information on the

statement of net position (deficit) is aggregated for component units. The combining statement of net position and the combining statement of activities provide detail for each major component unit and the nonmajor component units in aggregate. The combining financial statements for major component units can be found immediately following the fiduciary funds financial statements.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the basic financial statements can be found immediately following the major component units' combining financial statements.

Required Supplementary Information / Supplementary and Other Information (Unaudited)

The basic financial statements include a section of required supplementary information and other information immediately following its notes. This section includes information of funding progress and employer contributions for the Commonwealth's three separate retirement systems, including postemployment healthcare benefits, schedule of revenues and expenditures – budget and actual – budgetary basis – General Fund, supplemental schedule of expenditures by agency – budget and actual – budgetary basis – General Fund, and combining schedules for nonmajor governmental funds, nonmajor proprietary funds, fiduciary funds and nonmajor discretely presented component units.

Government-Wide Financial Analysis

The following is an analysis of the financial position and changes in financial position of the Commonwealth's governmental and business-type activities. Condensed financial information from the statements of net position as of June 30, 2013 and 2012 is as follows (expressed in thousands):

	Governmental Activities				Business-Type Activities			
	2013	2012 (as restated)	Change		2013	2012 (as restated)	Change	
Current and other assets	$ 6,157,305	7,574,867	(1,417,562)	-19%	1,410,662	1,389,662	21,000	2%
Capital assets	8,281,703	8,173,596	108,107	1%	59,205	60,705	(1,500)	-2%
Total assets	14,439,008	15,748,463	(1,309,455)	-8%	1,469,867	1,450,367	19,500	1%
Deferred outflows of resources	104,304	152,767	(48,463)	-32%	—	—	—	0%
Other liabilities	4,892,610	4,022,810	869,800	22%	111,233	96,898	14,335	15%
Long-term liabilities	56,863,701	53,708,572	3,155,129	6%	566,366	577,146	(10,780)	-2%
Total liabilities	61,756,311	57,731,382	4,024,929	7%	677,599	674,044	3,555	1%
Net investment in capital assets	3,749,901	3,482,183	267,718	8%	58,763	60,625	(1,862)	-3%
Restricted	946,509	2,702,239	(1,755,730)	-65%	1,011,466	966,503	44,963	5%
Unrestricted (deficit)	(51,909,409)	(48,014,574)	(3,894,835)	8%	(277,961)	(250,805)	(27,156)	11%
Total net position	$ (47,212,999)	(41,830,152)	(5,382,847)	13%	792,268	776,323	15,945	2%

Net Position (Deficit)

Net position may serve over time as a useful indicator of a government's financial position. Total assets plus deferred outflows of resources and total liabilities plus deferred inflows of resources of the governmental activities at June 30, 2013 amounted to approximately $14.5 billion and $61.7 billion, respectively, for a net deficit of approximately $47.2 billion, compared to a net deficit of $41.8 billion at the beginning of the current year.

The deficit in unrestricted net position in governmental activities, which increased by approximately $3.9 billion, exists primarily because the Commonwealth has issued debt for short-term purposes while retaining the long-term obligations, including the net pension obligation. The statement of net position presents outstanding bonds amounting to approximately $35.8 billion and net pension obligation amounting to approximately $13.1 billion. This deficit in unrestricted net position of governmental activities can be expected to continue for as long as the Commonwealth continues to have obligations outstanding for purposes other than the acquisition of governmental capital assets. The deficit also shows the accumulation of years of excessive operating expenses in disparity with actual revenues.

A portion of the Commonwealth's net position reflects its investment in capital assets such as land, buildings, and equipment, less any related debt used to acquire those assets. The Commonwealth uses these capital assets to provide services to its residents.

An additional portion of the Commonwealth's net position represents resources that are subject to external restrictions on how they may be used. Internally imposed designations of resources are not presented as restricted net assets.

During fiscal year 2013, the Commonwealth adopted the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*. Pursuant to the adoption of GASB Statement No. 61, certain discretely presented component units were blended with the corresponding fund. The Puerto Rico Infrastructure Financing Authority and Special Communities Perpetual Trust became blended component units within other governmental funds. Blending the aforementioned entities increased net deficit of governmental activities by approximately $1.8 billion (see note 3 for further detail).

The net position in business-type activities increased by approximately $15.9 million (2%) from $776.3 million in 2012 to $792.2 million in 2013. The increase in net position for business-type activities was caused primarily by the unemployment insurance fund, lotteries fund and Puerto Rico Water Pollution Control Revolving Fund revenues and U.S. Government Grants exceeding expenses by approximately $12.8 million, $21.1 million, and $29.1 million, respectively. This was partially offset by decreases in net position reported by the Puerto Rico Medical Services Administration (PRMeSA) fund and other nonmajor proprietary funds. Puerto Rico Medical Services Administration fund expenses exceeded revenues by $41.3 million primarily because the administration derives a substantial portion of its revenues from services rendered to member institutions and provides services to medical indigent population, some of them uninsured, which do not have formal means of repayment. Other nonmajor funds expenses exceeded revenues by $5.8 million.

With the adoption of GASB Statement No. 61, the PRMeSA became a blended component unit within business-type activities, while the presentation of the Governing Board of 9-1-1 Services was corrected and is now presented as a business type activity as opposed to a discretely presented component unit. This change had a

negative effect in net position of the business-type activities approximately of $186.9 million (see note 3 for further detail).

Condensed financial information of the statements of activities for the years ended June 30, 2013 and 2012 is as follows (expressed in thousands):

	Governmental Activities				Business-Type Activities			
	2013	2012 (as restated)	Change		2013	2012 (as restated)	Change	
Revenues:								
Program revenues:								
Charges for services	$ 714,849	563,838	151,011	27%	1,341,729	1,362,801	(21,072)	-2%
Operating grants and contributions	6,430,520	6,530,673	(100,153)	-2%	214,193	364,219	(150,026)	-41%
Capital grants and contributions	110,249	152,591	(42,342)	-28%	—	—	—	0%
	7,255,618	7,247,102	8,516	0%	1,555,922	1,727,020	(171,098)	-10%
General revenues:								
Taxes	8,244,567	8,028,704	215,863	3%	—	—	—	0%
Revenue from global tobacco settlement agreement	109,414	72,491	36,923	51%	—	—	—	0%
Revenue from component units	90,413	74,973	15,440	21%	—	—	—	0%
Other, including loss on investments	183,606	52,461	131,145	250%	14,198	15,604	(1,406)	-9%
	8,628,000	8,228,629	399,371	5%	14,198	15,604	(1,406)	-9%
Total revenues	15,883,618	15,475,731	407,887	3%	1,570,120	1,742,624	(172,504)	-10%
Expenses:								
General government	3,266,391	3,602,639	(336,248)	-9%	—	—	—	0%
Public safety	2,664,974	2,240,138	424,836	19%	—	—	—	0%
Health	3,245,973	2,903,009	342,964	12%	—	—	—	0%
Public housing and welfare	3,731,627	3,674,116	57,511	2%	—	—	—	0%
Education	4,891,928	5,145,390	(253,462)	-5%	—	—	—	0%
Economic development	1,129,467	809,961	319,506	39%	—	—	—	0%
Payment of obligations of component units	—	458,207	(458,207)	-100%	—	—	—	0%
Intergovernmental	483,970	374,127	109,843	29%	—	—	—	0%
Interest and other	2,099,043	1,971,196	127,847	6%	—	—	—	0%
Lotteries	—	—	—	0%	685,130	722,620	(37,490)	-5%
Unemployment insurance	—	—	—	0%	387,336	486,342	(99,006)	-20%
Medical Services Administration	—	—	—	0%	200,888	193,414	7,474	4%
Water Pollution Control Revolving Fund	—	—	—	0%	1,527	—	1,527	0%
Nonmajor proprietary funds	—	—	—	0%	32,386	47,518	(15,132)	-32%
Total expenses	21,513,373	21,178,783	334,590	2%	1,307,267	1,449,894	(142,627)	-10%
Increase (decrease) in net position before transfers	(5,629,755)	(5,703,052)	73,297	-1%	262,853	292,730	(29,877)	-10%
Transfers	246,908	206,502	40,406	20%	(246,908)	(206,502)	(40,406)	20%
Change in net position	(5,382,847)	(5,496,550)	113,703	-2%	15,945	86,228	(70,283)	-82%
Net position, beginning of year, as rested (note 3)	(41,830,152)	(36,333,602)	(5,496,550)	15%	776,323	690,095	86,228	12%
Net position, end of year	$ (47,212,999)	(41,830,152)	(5,382,847)	13%	792,268	776,323	15,945	2%

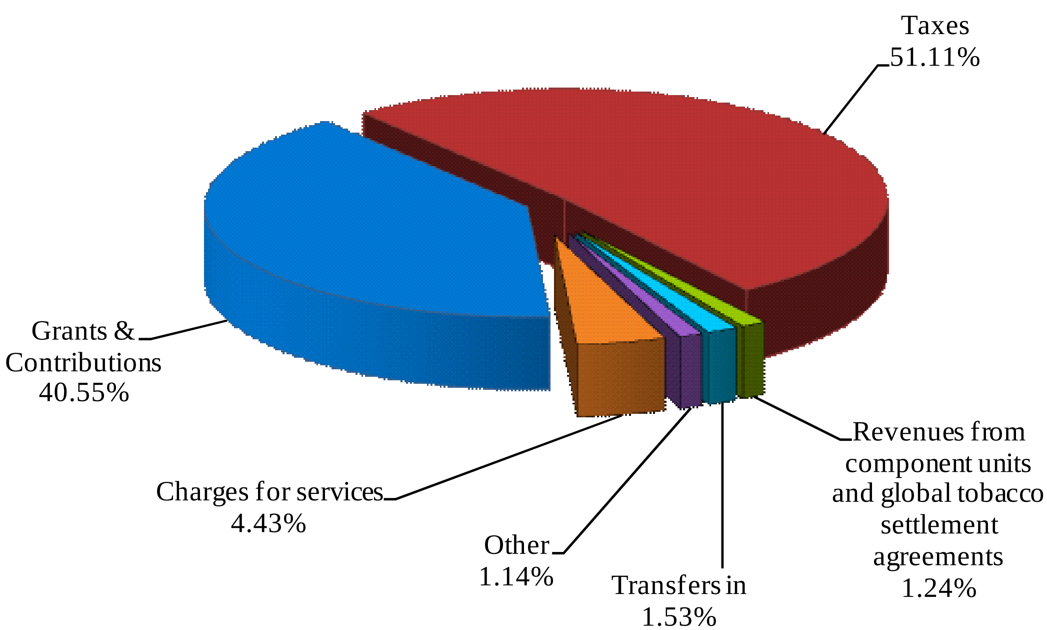
Results of Operation

The governmental activities net deficit increased by approximately $5.4 billion or 13% from last year's total net deficit, as restated. The increase in net deficit is the result of excessive operating expenses in disparity of operating revenues and the increase in the Commonwealth liabilities such as net pension obligation, legal claims and compensated absences, among others. Approximately 51.11% of the governmental activities' revenue (including transfers) came from taxes, while 40.55% resulted from grants and contributions (primarily federal financial assistance). Charges for services provided represented 4.43% of the total revenue. The governmental activities expenses cover a range of services. The largest expenses were for general government, education, public housing and welfare, health, and public safety, which presented a combined increase of approximately $235.6 million when compared with prior fiscal year. In 2013, governmental activities' expenses exceeded program revenue by approximately $14.3 billion, resulting in the use of approximately $8.6 billion of general revenue and transfers from other funds (mostly taxes).

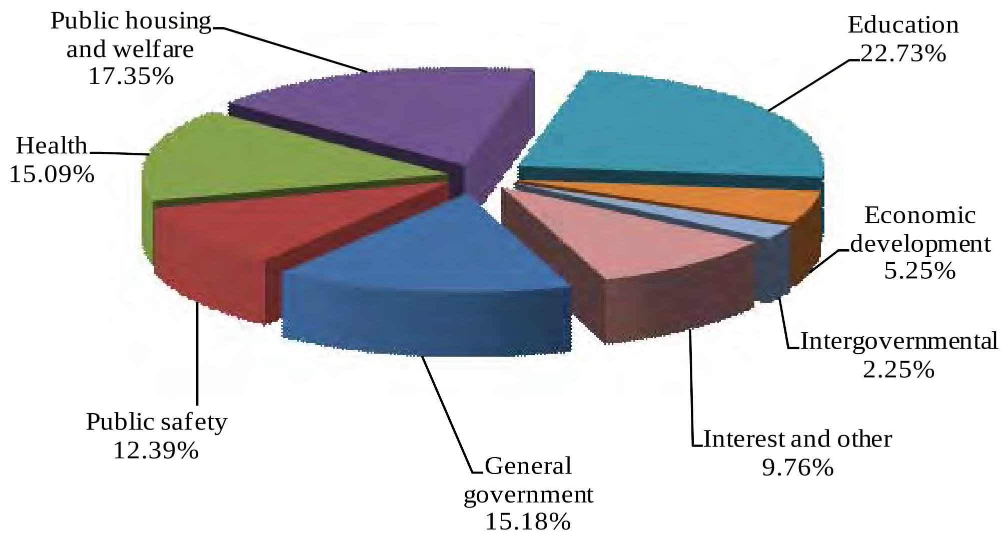
When compared to prior fiscal year, governmental activities revenues displayed an increase of approximately $407.9 million or 3%. Fiscal stabilization initiatives as well as other economic growth plans aided Governmental activities revenue collections for fiscal year 2013, thus offsetting effects of the economic recession. During fiscal year 2013, the Commonwealth continued its policy of fiscal and budgetary control and economic measures. These measures were instrumental in maintaining the level of governmental activities expenses when comparing fiscal year 2013 with 2012, which showed a slight increase of approximately $334.6 million.

Revenues and Transfers – Governmental Activities

Year ended June 30, 2013



Expenses – Governmental Activities



Business type activities' net position increased by approximately $15.9 million or 2% from last year's total net position, as restated. Approximately 86% of the business type activities total revenue came from charges for services, while 14% resulted from grants and contributions (primarily federal financial assistance). Business type activities expenses cover a range of services. The largest expenses were for lotteries, unemployment insurance and the Puerto Rico Medical Services Administration, which presented a combined decrease of approximately $129.0 million or 9% when compared with prior fiscal year. In 2013, business type activities' program revenues exceeded expenses by approximately $248.6 million, of which approximately $246.9 million were transferred to governmental activities.

Governmental Funds

The focus of the Commonwealth's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Commonwealth's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of fiscal year 2013, the Commonwealth's governmental funds reported combined ending deficit of approximately $391.6 million. In fiscal year 2013, the expenditures exceeded the revenues by approximately $3.6 billion. However, this was offset by other financing sources, net amounting to approximately $1.5 billion in the governmental funds. This year, the excess of expenditures over revenue decreased by approximately $1.6 billion compared with the prior year. Other financing sources decreased by approximately $3.5 billion compared with the prior year.

The General Fund is the chief operating fund of the Commonwealth. At the end of the current fiscal year, the total General Fund balance had a total deficit of approximately $2.0 billion. The fund deficit of the Commonwealth's General Fund increased by approximately $842.8 million as a result of the current fiscal year's change in financial position. This is a 72% increase when compared to the General Fund deficit reported in fiscal year 2012.

The debt service fund is the fund in which the Commonwealth accumulates the resources for the payment of the long-term debt. At end of the fiscal year, the fund balance of the debt service fund decreased by approximately $453.7 million. Bonds and interest payable increased by approximately $77.1 million compared with prior year.

The COFINA special revenue fund is used to account for and report all financial resources of COFINA. At end of the fiscal year, the fund balance of the COFINA special revenue fund decreased by approximately $8.2 million. During the year, COFINA special revenue fund issued approximately $333.3 million of bond's anticipation notes to be transferred to the General Fund.

The COFINA debt service fund is used to account for the Commonwealth sales tax revenue being deposited in the Dedicated Sales Tax Fund for the payment of interest and principal on long-term obligations. At end of the fiscal year, the fund balance of the COFINA debt service fund decreased by approximately $134.2 million. Total assets decreased by approximately $134 million or 19% when compared to prior year manly due to the payment of interest related to debt issued.

Other governmental funds (nonmajor) fund balance decreased by approximately $650.4 million during the year. The beginning fund balance was affected mainly by the adoption of GASB Statement No. 61 and a correction of an error, causing a net increase of approximately $282.2 million (See note 3 for further detail).

Proprietary Funds

The Commonwealth's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. As discussed above, the net position of the business-type activities increased by approximately $15.9 million as a result of operations in the proprietary funds. This resulted from an increase of approximately $12.8 million, $21.1 million, and $29.1 million in net position from the unemployment insurance fund, lotteries fund, and Puerto Rico Water Pollution Control Revolving Fund, respectively, offset by a decrease in net position of approximately $41.3 million and $5.8 million in the Puerto Rico Medical Service Administration and other nonmajor proprietary funds, respectively.

Capital Assets and Debt Administration

Capital Assets

The following is a summary schedule of the primary government's capital assets:

		Governmental activities		Business-type activities		Total Primary Government	
		2013	2012 (as restated)	2013	2012 (as restated)	2013	2012 (as restated)
Land	$	909,748	899,224	6,872	6,872	916,620	906,096
Construction in progress		1,157,593	1,470,470	—	1,980	1,157,593	1,472,450
Buildings and building improvements, net		5,583,417	5,149,754	34,164	34,891	5,617,581	5,184,645
Equipment, furniture, fixtures, vehicles and software, net		181,519	192,183	18,169	16,962	199,688	209,145
Infrastructure, net		449,426	461,965	—	—	449,426	461,965
Total capital assets	$	8,281,703	8,173,596	59,205	60,705	8,340,908	8,234,301

The Commonwealth's investment in capital assets for its governmental and business type activities as of June 30, 2013 amounted to approximately $12.5 billion, less accumulated depreciation and amortization of $4.2 billion, leaving a book value of $8.3 billion. This investment in capital assets includes land, construction in progress, buildings, building improvements and equipment as infrastructure.

The net book value of capital assets at June 30, 2013 is distributed by function/activity in the following proportions: general government, 45%; public safety, 6%; health, 2%; public housing and welfare, 30%; education, 4%; and economic development, 13%. Capital outlays were approximately $519 million for the fiscal year. Depreciation and amortization charges for the fiscal year totaled $336 million.

The fiscal year 2013 capital asset highlights include transactions from blended component units such as Public Buildings Administration transfers from construction in progress to buildings and building improvements in the amount of approximately $644 million and the Department of Transportation and Public Works additions of approximately $64 million.

The infrastructure assets representing items that are normally immovable and of value only to the Commonwealth, such as roads, highways, bridges, toll facilities, water and sewer systems, lighting production, transmission and distribution systems, and similar items, are principally owned by the component units of the Commonwealth. Therefore, the infrastructure assets are reported within depreciable capital assets under the discretely presented component units' column. Additional information on the Commonwealth's capital assets can be found in note 10 to the basic financial statements that accompany this report.

Debt Administration

Long-term obligations of the governmental activities as of June 30, 2013 were approximately $56.9 billion, of which $2.4 billion are due within one year. Long-term obligations of the governmental activities increased by approximately $3.2 billion, or 6%, when compared to the prior fiscal year.

General obligation bonds are backed by the full faith and credit of the Commonwealth, including the Commonwealth's power to levy additional taxes to help ensure repayment of the debt.

The Constitution of the Commonwealth provides that direct obligations of the Commonwealth evidenced by bonds or notes and backed by the full faith, credit, and taxing power of the Commonwealth are not to be issued if the amount of the principal of, and interest on, such bonds and notes and on all such bonds and notes issued thereafter, which are payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year on account of bonds or notes guaranteed by the Commonwealth, exceed 15% of the average annual revenue raised under the provisions of Commonwealth legislation and conveyed into the treasury (internal revenues) in the two fiscal years preceding the current fiscal year. Section 2, Article VI of the Constitution of the Commonwealth does not limit the amount of debt that the Commonwealth may guarantee as long as the 15% limitation is not exceeded through payments by the Commonwealth on such guaranteed debt. At June 30, 2013, the Commonwealth is in compliance with the debt limitation requirement.

The Commonwealth's policy has been and continues to be to prudently manage such debt within the constitutional limitation. Debt of municipalities, other than bond anticipation notes, is supported by real and personal property taxes, municipal license taxes, and the corresponding part of the sales and use tax. Debt of public corporations, other than bond anticipation notes, is generally supported by the revenues of such corporations from rates charged for services or products. However, certain debt of public corporations is

supported, in whole or in part, directly or indirectly, by Commonwealth appropriations or taxes.

Internal revenues consist principally of income taxes, property taxes, sales and use taxes and excise taxes. Certain revenues, such as federal excise taxes on offshore shipments of alcoholic beverages and tobacco products and customs duties, which are collected by the United States Government and returned to the Department of the Treasury of the Commonwealth and motor vehicle fuel taxes and license fees, which are allocated to the Puerto Rico Highways and Transportation Authority, are not included as internal revenues for the purpose of calculating the debt limit, although they may be available for the payment of debt service. In addition, the portion of the sales and use tax allocated to COFINA is not included as internal revenues since the legislation that created COFINA transferred ownership of such portion of the sales and use tax to COFINA and provided that such portion was not available resources under the Constitutional provisions relating to full faith and credit bonds.

Long-term obligations of the business-type activities decreased by approximately $10.8 million, or 2% due primarily to the decrease in the obligation for unpaid lottery prices.

Additional information on the Commonwealth's long term debt can be found in note 12 to the basic financial statements that accompany this report.

General Fund Budgetary Highlights

The Commonwealth adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided as required supplementary information for the General Fund to demonstrate compliance with this budget. The schedule of revenue and expenditures – budget and actual – budgetary basis – General Fund only presents the information for the General Fund for which there is a legally adopted budget, as required by U.S. GAAP. See the notes to required supplementary information for a reconciliation of the schedule of revenue and expenditures – budget and actual – budgetary basis – General Fund with the statement of revenues, expenditures, and changes in fund balance (deficit) for the General Fund.

Total General Fund actual revenues on a budget basis (sources) for fiscal year 2013 were $8.1 billion, (excluding other financing sources) representing a decrease of approximately $511 million, or 6%, from original budgeted revenues and a decrease of approximately $442 million from actual revenues of $8.6 billion for fiscal year 2012.

Total actual expenditures on a budget basis of approximately $8.9 billion represented a decrease of $973 million from actual expenditures of $9.9 billion for fiscal year 2012.

For fiscal year 2013, the actual budgetary deficit in the General Fund was $807 million, consisting of the difference between total actual revenues of approximately $8.1 billion and total actual expenditures for such fiscal year of $8.9 billion. For fiscal year 2012, the deficit was $1.3 billion, consisting of the difference between total actual revenues of approximately $8.6 billion and total actual expenditures for such fiscal year of approximately $9.9 billion. The deficits for fiscal year 2013 decreased by approximately $531 million or 38.5% when compared to 2012 and decreased by approximately $275 million or 25% when compared to the deficit of approximately $1.1 billion in 2011. The Government's ability to continue reducing the deficit will depend in part on its ability to continue increasing revenues and reducing expenditures, which in turn depends on a number of factors, including improvements in general economic conditions.

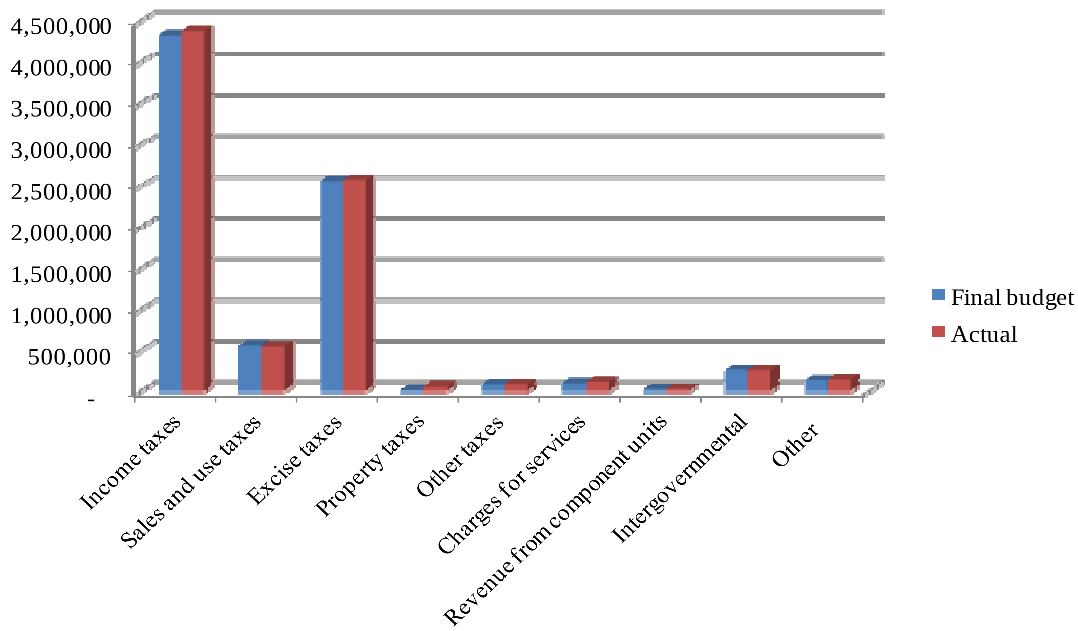
The following information is presented to assist the reader in comparing the final amended budget and the actual results.

COMMONWEALTH OF PUERTO RICO

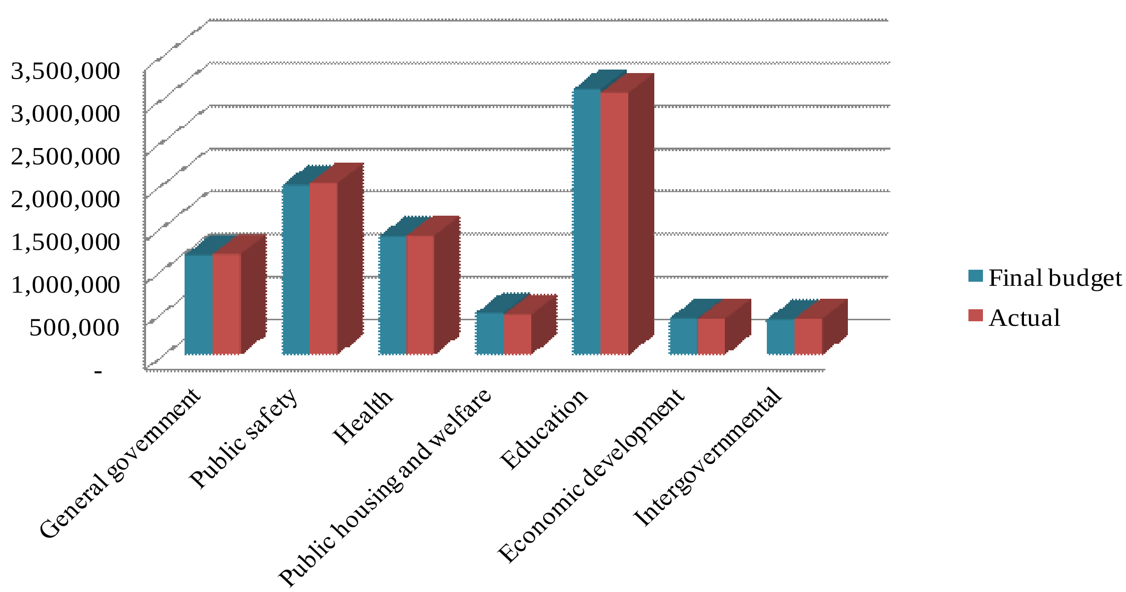
Management's Discussion and Analysis (Unaudited)

June 30, 2013

Actual Revenues – General Fund
Budgetary Basis
Year ended June 30, 2013
(Expressed in thousands)



Actual Expenditures - General Fund
Budgetary Basis
Year ended June 30, 2013
(Expressed in thousands)



Differences Between Budget and Basic Financial Statements – Revenues and expenditures, as reported by the Commonwealth in its basic financial statements, may differ substantially from resources and appropriations in its annual budget for a number of reasons, including the following:

- The budgetary accounts are on a budgetary basis, while financial statements prepared by the Commonwealth include adjustments as required by governmental accounting standards.
- Expenditures for current purposes in a particular year may include amounts appropriated for earlier periods but not previously expended or amounts not budgeted for a particular fiscal year, but expended during that year, and, conversely, may exclude amounts appropriated for such fiscal year but not expended until later periods.
- Bonds are authorized by the Commonwealth in accordance with a four year capital improvement program. Since bond sales are determined by bond market conditions and other factors, the amounts for bonds sold for these improvements are financed by advances from the General Fund to the capital projects fund, which are later reimbursed from proceeds of a bond or notes sale.

Currently Known Facts

The following is a summary description of current known facts, decisions and conditions that have had and are expected to have a significant effect on the Commonwealth's financial position and results of operations.

Fiscal Stabilization Initiatives – The current administration, which commenced its term in January 2013, implemented the following measures to increase revenues and reduce the deficit for fiscal year 2013: 1) an initiative which resulted in $235 million in advance payments of non-resident withholding tax related to manufacturing patents, 2) the transfer of $240 million in excess funds in the Redemption Fund to the General Fund, 3) amendment of Act 154-2012 in order to extend the effective period and reset the tax rate to a fixed 4% of the excise tax on the acquisition of certain manufacturing products produced and services rendered in Puerto Rico, and 4) the implementation of a tax amnesty program designed to increase revenues by encouraging tax payers with older tax liabilities to pay them, which resulted in immediate collection of $98 million and payment plans for an additional $176 million.

Offset of Federal Funds – Through May 13, 2013, the United States Treasury Department (USTD) withheld $157.8 million in federal funds, amounts destined to certain agencies and instrumentalities. This action from the USTD responds to the Commonwealth's share of construction cost associated with the Cerrillo Dam and Reservoir and the Portuguese-River and Bucana-River Projects. As per the United States Army Corps of Engineers (USACE), the Commonwealth's share of construction costs plus accrued and projected interest through June 30, 2046 amounted to approximately $598 million. In March 2014, a request from the Commonwealth was approved by USACE to establish a new payment plan up to fiscal year 2046 for total payments of $233.5 million. Total payment plan plus amounts previously withheld would bring total payment to $391.3 million.

Public Private Partnership – On July 17, 2012, the Public Private Partnership Authority and the Puerto Rico Ports Authority (PPA) selected Aerostar Airport Holdings, LLC as the winning proponent on order to serve as the operator of the Luis Munoz Marin Airport. As a result of the transaction the PPA received a lump sum payment of $615 and will receive an estimated $552 million in revenue sharing over the life of the lease.

Downgrading – On February 4, 2014, Standard & Poor's Ratings Services (S&P) lowered its rating on the general obligation bonds of the Commonwealth from "BBB-" to "BB+," which is a non-investment grade rating. On February 7, 2014, Moody's Investors Service ("Moody's") lowered its rating on the general obligation bonds of the Commonwealth two notches, from "Baa3" to "Ba2", and maintained a "negative" outlook on all these bonds. Moody's also downgraded the COFINA's senior lien bonds to Baa1 from A2 and its junior-lien bonds to Baa2 from A3. On February 10, 2014, Fitch Ratings ("Fitch") lowered its rating on the general obligation bonds of the Commonwealth by two notches from "BBB-" to "BB". During these same dates, S&P, Moody's and Fitch, also downgraded the PBA's bonds to a rating of BB or non-investment grade status, while Moody's lowered the credit ratings of PRIFA's Special Tax Revenue Bonds from Baa3 to Ba2. (See note 22 for further detail).

Bond Issuance – The Commonwealth refinanced the outstanding general obligation VRDOs ($469 million) and the COFINA bond anticipation notes ($333 million) with the proceeds of $3.5 billion general obligation bonds issued on March 11, 2014. In addition to the possible acceleration of debt instruments, the credit rating downgrades have also triggered "additional termination events" under interest rate exchange and other derivative agreements relating to outstanding bonds and notes of the Commonwealth and certain of its public corporations, making them now subject to termination at the option of the applicable counterparty. (See note 22 for further detail).

Pledged Sales and Use Tax Revenue – On October 9, 2013, the Governor signed into law Act No. 116, which increased from 2.75% to 3.50% the portion of the Commonwealth sales and use tax transferred to COFINA and expanded the permitted uses of COFINA bond proceeds to, among others, refinance Bond Anticipation Notes ("BANs") and other lines of credit used to help finance the Commonwealth's deficit for fiscal years 2013 and 2014. On January 24, 2014, Act No. 18 was enacted, reducing, effective February 1, 2014, the municipal sales and use tax from 1.5% to 1.0% and at the same time increasing the Commonwealth's sales and use tax from 5.5% to 6.0%. By such legislation, the minimum amount of the Commonwealth's sales and use tax available to COFINA was increased. (See note 22 for further detail).

Fiscal and Operational Sustainability Act – On June 17, 2014, the Governor signed into law Act No. 66, which declared a state of fiscal emergency in order to adopt a plan to manage the economic consequences of the Commonwealth credit rating downgrade, and to establish expenditures reduction measures and a structured management in order to satisfy the commitments of the Commonwealth. This Act establishes as public policy the restoration of the Commonwealth's investment-grade credit rating through the short term elimination of the General Fund deficit and the improvement of the Public Corporations fiscal condition. (See note 22 for further detail).

Puerto Rico Public Corporation Debt Enforcement and Recovery Act – On June 28, 2014, the Commonwealth enacted the Puerto Rico Public Corporation Debt Enforcement and Recovery Act (the "Debt Enforcement Act"). The Debt Enforcement Act provides an orderly, statutory process for the enforcement and restructuring, in a fair and equitable manner, of the debts and other obligations of certain public corporations experiencing financial distress, while ensuring the continuity of essential public services to the people of Puerto Rico.

Requests for Information

This financial report is designed to provide a general overview of the Commonwealth's finances for all of the Commonwealth's residents, taxpayers, customers, investors, and creditors. This financial report seeks to demonstrate the Commonwealth's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Department of the Treasury of the Commonwealth of Puerto Rico, Área de Contabilidad Central, P.O. Box 9024140, San Juan, PR 00902.

COMMONWEALTH OF PUERTO RICO

Statement of Net Position

June 30, 2013

(In thousands)

	Primary government			
Assets:	Governmental activities	Business-type activities	Totals primary government	Component units
Cash and cash equivalents in commercial banks	$ 350,015	49,450	399,465	1,457,618
Cash and cash equivalents in governmental banks	1,214,845	135,971	1,350,816	303,708
Cash equivalents in Puerto Rico Government Investment Trust Fund (PRGITF)	88,329	—	88,329	35,035
Investments	369,942	3,044	372,986	4,723,236
Collateral from securities lending transactions	—	—	—	102,689
Receivables – net of allowance for uncollectibles				
Income and excise taxes	1,135,995	—	1,135,995	—
Unemployment and other insurance premiums	—	3,750	3,750	40,542
Intergovernmental	407,634	—	407,634	129,743
Accounts	91,105	14,761	105,866	1,088,414
Loans	97,062	—	97,062	6,522,115
Accrued interest	40,514	68	40,582	301,683
Other	53,785	10,222	64,007	160,979
Due from:				
Primary government	—	—	—	428,563
Component units	95,017	11,863	106,880	3,690,465
Other governmental entities	23,437	10,641	34,078	542,329
Internal balances	(19,358)	19,358	—	—
Inventories	11,069	—	11,069	569,099
Prepaid expenses	9,721	—	9,721	39,501
Other assets	13,316	4,805	18,121	—
Restricted assets:				
Cash and cash equivalents in commercial banks	628,573	4,527	633,100	959,144
Cash and cash equivalents in governmental banks	230,741	136,987	367,728	388,618
Cash and cash equivalents under the custody of U.S. Treasury	—	398,059	398,059	—
Sales and use tax	111,486	—	111,486	—
Unemployment and other insurance premiums receivable	—	61,153	61,153	—
Intergovernmental	—	416	416	—
Receivables	—	4,624	4,624	—
Accrued interest	—	1,512	1,512	—
Loans receivable from component units	—	469,743	469,743	—
Investments	787,718	44,281	831,999	4,032,520
Due from other governmental entities	3,818	—	3,818	—
Other	8,619	25,427	34,046	73,406
Real estate held for sale or future development	44,804	—	44,804	227,514
Capital assets:				
Land and other nondepreciable assets	2,067,341	6,872	2,074,213	6,502,938
Other capital assets – net of depreciation or amortization	6,214,362	52,333	6,266,695	23,949,059
Deferred debt issue costs	359,118	—	359,118	256,560
Deferred expenses and other assets	—	—	—	106,330
Total assets	14,439,008	1,469,867	15,908,875	56,631,808
Deferred Outflows of Resources:				
Deferred outflows of resources - Accumulated decrease in fair value of hedging derivatives	104,304	—	104,304	95,660
Total deferred outflows of resources	104,304	—	104,304	95,660

(Continued)

COMMONWEALTH OF PUERTO RICO

Statement of Net Position

June 30, 2013

(In thousands)

	Primary government			
Liabilities:	Governmental activities	Business-type activities	Totals primary government	Component units
Accounts payable and accrued liabilities	1,789,691	44,509	1,834,200	2,089,225
Deposits and escrow liabilities	—	—	—	6,286,622
Tax refunds payable	1,205,517	—	1,205,517	—
Due to:				
Primary government	—	—	—	576,623
Component units	389,412	39,151	428,563	3,690,465
Other governmental entities	13,450	1,827	15,277	435,646
Securities lending obligations and reverse repurchase agreements	—	—	—	813,190
Interest payable	589,278	—	589,278	661,688
Deferred revenue	352,410	25,746	378,156	116,751
Bond anticipation notes	204,866	—	204,866	—
Liability for automobile accident insurance, workmen compensation and medical claims	—	—	—	1,075,851
Investment derivative instruments – interest rate swaps	56,972	—	56,972	—
Hedging derivatives instruments - interest rate swaps	104,304	—	104,304	227,422
Liabilities payable within one year:				
Bonds	827,410	—	827,410	693,622
Notes	1,323,474	1,078	1,324,552	1,218,941
Capital leases	5,523	—	5,523	901
Compensated absences	119,169	2,194	121,363	179,783
Lottery prizes	—	49,489	49,489	—
Voluntary termination benefits	101,178	733	101,911	11,765
Insurance benefits payable	—	69,386	69,386	—
Other long-term liabilities	218,249	8,907	227,156	87,395
Liabilities payable after one year:				
Commonwealth appropriation bonds	538,573	—	538,573	509,645
Bonds	34,423,774	—	34,423,774	19,099,063
Notes	1,687,370	272,266	1,959,636	5,910,698
Capital leases	171,819	—	171,819	29,570
Net pension obligation	13,072,665	—	13,072,665	—
Net postemployment benefit obligation	278,372	1,572	279,944	—
Compensated absences	1,411,149	15,803	1,426,952	356,216
Lottery prizes	—	126,703	126,703	—
Voluntary termination benefits	993,263	5,659	998,922	223,853
Other long-term liabilities	1,878,423	12,576	1,890,999	820,825
Total liabilities	61,756,311	677,599	62,433,910	45,115,760
Deferred Inflows of Resources:				
Deferred inflows of resources - service concession arrangements	—	—	—	1,785,090
Net Position:				
Net investment in capital assets	3,749,901	58,763	3,808,664	7,857,326
Restricted for:				
Capital projects	269,863	—	269,863	280,936
Debt service	582,679	—	582,679	853,559
Emergency services	—	9,993	9,993	—
Lending activities	—	602,274	602,274	—
Payment of insurance benefits	—	399,199	399,199	—
Public housing and welfare	93,459	—	93,459	121,598
Student loans and other educational purposes	—	—	—	99,674
Other	508		508	266,772
Unrestricted (deficit)	(51,909,409)	(277,961)	(52,187,370)	346,753
Total net position	$ (47,212,999)	792,268	(46,420,731)	9,826,618

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Activities

Year ended June 30, 2013

(In thousands)

		Program revenues			Net (expense) revenue and changes in net position			
					Primary government			
Functions	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total	Component units
Primary Government:								
Governmental activities:								
General government	$ 3,266,391	325,651	312,584	—	(2,628,156)	—	(2,628,156)	—
Public safety	2,664,974	51,482	88,336	—	(2,525,156)	—	(2,525,156)	—
Health	3,245,973	191,464	1,663,913	—	(1,390,596)	—	(1,390,596)	—
Public housing and welfare	3,731,627	4,634	2,797,402	110,249	(819,342)	—	(819,342)	—
Education	4,891,928	1,899	1,517,266	—	(3,372,763)	—	(3,372,763)	—
Economic development	1,129,467	139,719	51,019	—	(938,729)	—	(938,729)	—
Intergovernmental	483,970	—	—	—	(483,970)	—	(483,970)	—
Interest and other	2,099,043	—	—	—	(2,099,043)	—	(2,099,043)	—
Total governmental activities	21,513,373	714,849	6,430,520	110,249	(14,257,755)	—	(14,257,755)	—
Business-type activities:								
Unemployment insurance	387,336	267,321	185,954	—	—	65,939	65,939	—
Lotteries	685,130	917,462	—	—	—	232,332	232,332	—
Puerto Rico Medical Services Administration	200,888	110,872	—	—	—	(90,016)	(90,016)	—
Puerto Rico Water Pollution Control Revolving Fund	1,527	6,060	22,727	—	—	27,260	27,260	—
Nonmajor proprietary funds	32,386	40,014	5,512	—	—	13,140	13,140	—
Total business-type activities	1,307,267	1,341,729	214,193	—	—	248,655	248,655	—
Total primary government	$ 22,820,640	2,056,578	6,644,713	110,249	(14,257,755)	248,655	(14,009,100)	—

(Continued)

COMMONWEALTH OF PUERTO RICO

Statement of Activities

Year ended June 30, 2013

(In thousands)

		Program revenues			Net (expense) revenue and changes in net position			
					Primary government			
Functions	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total	Component units
Component Units:								
Government Development Bank for Puerto Rico	$ 864,077	571,640	170,501	—	—	—	—	(121,936)
Puerto Rico Highways and Transportation Authority	1,154,822	217,720	—	428,930	—	—	—	(508,172)
Puerto Rico Electric Power Authority	5,191,088	4,843,016	—	31,979	—	—	—	(316,093)
Puerto Rico Aqueduct and Sewer Authority	1,233,804	735,693	—	19,859	—	—	—	(478,252)
University of Puerto Rico	1,414,968	216,482	138,337	5,219	—	—	—	(1,054,930)
Puerto Rico Health Insurance Administration	2,372,473	1,406,190	—	—	—	—	—	(966,283)
Nonmajor component units	2,135,444	1,518,821	69,788	20,678	—	—	—	(526,157)
Total component units	$ 14,366,676	9,509,562	378,626	506,665	—	—	—	(3,971,823)
General Revenues:								
Income taxes					$ 4,068,611	—	4,068,611	—
Sales and use tax					1,170,748	—	1,170,748	—
Excise taxes					2,870,741	—	2,870,741	65,642
Other taxes					134,467	—	134,467	—
Revenue from global tobacco settlement agreement					109,414	—	109,414	—
Revenue from State Insurance Fund Corporation					67,802	—	67,802	—
Revenue from Puerto Rico Tourism Company					22,611	—	22,611	—
Grants and contributions not restricted to specific programs					131,164	—	131,164	167,204
Revenue from primary government					—	—	—	2,262,734
Unrestricted investment earnings – net					9,004	14,198	23,202	287,013
Other					43,438	—	43,438	125,577
Transfers					246,908	(246,908)	—	—
Total general revenues and transfers					8,874,908	(232,710)	8,642,198	2,908,170
Change in net position					(5,382,847)	15,945	(5,366,902)	(1,063,653)
Net position – beginning of year, as restated (note 3)					(41,830,152)	776,323	(41,053,829)	10,890,271
Net position – end of year					$ (47,212,999)	792,268	(46,420,731)	9,826,618

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Balance Sheet – Governmental Funds

June 30, 2013

(In thousands)

		General	Debt service	COFINA special revenue	COFINA debt service	Other governmental	Total governmental
Assets:							
Cash and cash equivalents in commercial banks	$	212,263	137	—	—	137,615	350,015
Cash and cash equivalents in governmental banks		288,086	798,609	14,755	—	113,395	1,214,845
Cash equivalents in PRGITF		—	—	—	—	88,329	88,329
Investments		317,420	—	34,893	—	17,629	369,942
Receivables:							
Income and excise taxes		1,135,995	—	—	—	—	1,135,995
Intergovernmental		376,639	30,995	—	—	—	407,634
Accounts		90,063	—	—	—	1,042	91,105
Loans		97,023	—	—	—	39	97,062
Accrued interest		40,421	—	—	—	93	40,514
Other		6,265	—	—	—	47,520	53,785
Due from:							
Other funds		41,173	—	—	—	34,498	75,671
Component units		80,272	—	—	—	14,745	95,017
Other governmental entities		—	—	—	—	22,582	22,582
Other assets		12,142	—	—	—	1,174	13,316
Restricted assets:							
Cash and cash equivalents in commercial banks		62,170	—	—	5	566,398	628,573
Cash and cash equivalents in governmental banks		10,790	—	—	18,861	201,090	230,741
Sales and use tax		—	—	—	111,486	—	111,486
Investments		—	—	—	448,754	338,964	787,718
Due from other funds		—	—	—	—	7,272	7,272
Due from other governmental entities		—	—	—	—	3,818	3,818
Other assets		—	—	—	647	7,972	8,619
Real estate held for sale or future development		—	—	—	—	2,052	2,052
Total assets	$	2,770,722	829,741	49,648	579,753	1,606,227	5,836,091
Liabilities and Fund Balance (Deficit):							
Liabilities:							
Accounts payable and accrued liabilities	$	1,578,480	—	796	143	210,272	1,789,691
Tax refunds payable		1,205,517	—	—	—	—	1,205,517
Due to:							
Other funds		81,847	—	—	—	20,454	102,301
Component units		378,120	—	—	—	11,292	389,412
Other governmental entities		6,207	—	—	—	7,243	13,450
Notes payable		186,710	—	—	—	—	186,710
Bond anticipation notes payable		—	—	—	—	204,866	204,866
Bonds payable		—	384,235	—	—	72,595	456,830
Interest payable		44,587	259,971	—	—	120,676	425,234
Deferred revenue		1,126,282	28,841	—	—	124,601	1,279,724
Compensated absences		100,105	—	—	—	—	100,105
Termination benefits payable		722	—	—	—	—	722
Other liabilities		73,171	—	—	—	—	73,171
Total liabilities		4,781,748	673,047	796	143	771,999	6,227,733
Fund balances (deficit):							
Nonspendable		5,000	—	—	—	225,100	230,100
Spendable:							
Restricted		357,496	—	—	579,610	538,745	1,475,851
Committed		171	2,154	—	—	29,042	31,367
Assigned		15,408	154,540	48,852	—	106,991	325,791
Unassigned		(2,389,101)	—	—	—	(65,650)	(2,454,751)
Total fund balances (deficit)		(2,011,026)	156,694	48,852	579,610	834,228	(391,642)
Total liabilities and fund balances	$	2,770,722	829,741	49,648	579,753	1,606,227	5,836,091

See accompanying notes to basic financial statements

COMMONWEALTH OF PUERTO RICO

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position

June 30, 2013

(In thousands)

Total fund deficit of governmental funds	$	(391,642)
Amounts reported for governmental activities in the statement of net position are different than th amounts reported in the governmental funds because		
Inventories and prepaid expenses that are not reported in governmental funds and ar reported in the statement of net positior		20,790
Deferred outflows of resources - Accumulated decreases in fair value of hedging derivative		104,304
Due from other governmental entities that are not available to pay current expenditures anc therefore, are not reported in funds		855
Capital assets used in governmental activities are not financial resources and, therefore, ar not reported reported in funds		8,281,703
Real estate held for sale or future development are not current financial resources anc therefore, are not reported in the funds		42,752
Deferred revenue reported in the governmental funds are recognized as revenue in th governmental activities		927,314
Debt issued by the Commonwealth has associated costs that are paid from current availabl resources in the funds. However, these costs are deferred in the statement of net positio		359,118
Long-term liabilities are not due and payable in the current period and therefore are no reported in the funds:		
Interest payable		(164,044)
Derivative instruments interest rate swaps		(161,276)
Commonwealth appropriation bonds		(538,573)
Bonds payable		(34,794,354)
Notes payable		(2,824,134)
Capital leases payable		(177,342)
Net pension obligation		(13,072,665)
Net postemployment benefit obligatior		(278,372)
Compensated absences		(1,430,213)
Voluntary termination benefits payable		(1,093,719)
Other long-term liabilities		(2,023,501)
Total net position of governmental activities	$	(47,212,999)

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) – Governmental Funds

Year ended June 30, 2013

(In thousands)

	General	Debt service	COFINA special revenue	COFINA debt service	Other governmental	Total governmental
Revenues:						
Taxes:						
Income taxes	$ 4,229,193	—	—	—	—	4,229,193
Sales and use tax	543,170	—	—	627,578	—	1,170,748
Excise taxes	2,870,741	—	—	—	—	2,870,741
Property taxes	57,673	—	—	—	—	57,673
Other taxes	81,449	—	—	—	—	81,449
Charges for services	698,373	—	—	—	—	698,373
Revenue from global tobacco settlement agreement	107,688	—	—	—	—	107,688
Revenues from component units	90,413	—	—	—	—	90,413
Intergovernmental	6,502,506	102,323	—	—	38,262	6,643,091
Interest and investment earnings (losses)	16,249	519	33	324	(23,355)	(6,230)
Other	28,717	—	—	—	14,074	42,791
Total revenues	15,226,172	102,842	33	627,902	28,981	15,985,930
Expenditures:						
Current:						
General government	894,282	—	19	406	214,935	1,109,642
Public safety	2,186,195	—	—	—	827	2,187,022
Health	3,220,682	—	—	—	4,460	3,225,142
Public housing and welfare	3,627,405	—	—	—	26,061	3,653,466
Education	4,831,777	—	—	—	5,123	4,836,900
Economic development	794,859	—	—	—	198,594	993,453
Intergovernmental	470,135	—	—	—	13,900	484,035
Capital outlays	205,755	—	—	—	313,197	518,952
Debt service:						
Principal	154,353	384,235	—	—	186,405	724,993
Interest and other	187,535	605,148	—	643,423	425,149	1,861,255
Other – debt issuance costs	—		—	600	—	600
Total expenditures	16,572,978	989,383	19	644,429	1,388,651	19,595,460
Excess (deficiency) of revenues over (under) expenditures	(1,346,806)	(886,541)	14	(16,527)	(1,359,670)	(3,609,530)
Other financing sources (uses):						
Transfers in	1,069,121	745,880	117,655	—	480,114	2,412,770
Transfers out	(1,258,960)	(313,088)	(459,148)	(117,655)	(17,011)	(2,165,862)
Proceeds from long term debt issued	689,101	—	333,300	—	246,165	1,268,566
Sale of capital assets	4,713	—	—	—	—	4,713
Total other financing sources (uses)	503,975	432,792	(8,193)	(117,655)	709,268	1,520,187
Net change in fund balances (deficit)	(842,831)	(453,749)	(8,179)	(134,182)	(650,402)	(2,089,343)
Fund balances (deficit) – beginning of year, as restated (note 3)	(1,168,195)	610,443	57,031	713,792	1,484,630	1,697,701
Fund balances (deficit) – end of year	$ (2,011,026)	156,694	48,852	579,610	834,228	(391,642)

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances (Deficit) of Governmental Funds to the Statement of Activitie

Year ended June 30, 2013

(In thousands)

Net change in fund balances (deficit) – total governmental funds			$	(2,089,343)
Amounts reported for governmental activities in the statement of activities ar different because:				
Governmental funds report capital outlays as expenditures. However, in the statemen of activities, the cost of those assets is allocated over their estimated useful live and reported as depreciation and amortization expense. In the current period, thes amounts are:				
Capital outlays	$	518,952		
Less depreciation and amortization expense		(330,334)		
Loss on disposal of assets		(116,448)		
Subtotal				72,170
The issuance of long-term debt (e.g. bonds, notes) provides current financia resources to governmental funds, while the repayment of the principal of long-tern debt consumes the current financial resources of governmental funds. Neithe transaction, however, has any effect on net assets. Also, governmental fund report the effect of issuance costs, premiums, discounts, and similar items whe debt is first issued, whereas these amounts are deferred and amortized in th statement of activities. This amount is the net effect of these differences in th treatment of long-term debt and related items				
Principal payments of long-term debt		724,993		
Proceeds from issuance of long-term deb		(1,268,566)		
Subtotal				(543,573)
Bond issuance costs are expenditures in governmental funds, but are deferred assets in th statement of net position (deficit)				600
Some revenues in the statement of activities do not provide current financial resource and therefore, are deferred in governmental funds. Also, revenues related to prior period that became available during the current period are reported in governmental funds bu are eliminated in the statement of activities. This amount is the net adjustment				(122,259)
Some expenses reported in the statement of activities do not require the use of curren financial resources and, therefore, are not reported as expenditures in governmental funds				(2,736,466)
Changes in fair value of investment derivative instruments do not require the use of curren financial resources and, therefore, are not reported as investment revenue i governmental funds. This amount is the net decrease in such fair value				15,234
Generally, inventory and prepayments are recorded as expenditures in th governmental funds when purchased rather than capitalized as an asset However, these assets are capitalized in the statement of net position (deficit) This amount is the net decrease in total inventories and prepaid expenses				20,790
Change in net position (deficit) of governmental activities			$	(5,382,847)

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Net Position – Proprietary Funds

June 30, 2013

(In thousands)

	Business-Type Activities – Enterprise Funds					
	Unemployment insurance	Lotteries	Puerto Rico Medical Services Administration	Water Pollution Control Revolving Fund	Other proprietary	Total proprietary
Assets:						
Current assets:						
Cash and cash equivalents in commercial banks	$ —	48,432	904	—	114	49,450
Cash and cash equivalents in governmental banks	—	66,581	—	—	69,390	135,971
Investments	—	—	—	—	3,044	3,044
Insurance premiums receivables – net	—	—	—	—	3,750	3,750
Accounts	—	—	12,519	—	2,242	14,761
Accrued interest receivable	—	—	—	—	68	68
Other receivables	—	9,240	722	—	260	10,222
Due from other funds	—	5,328	10,637	—	5,000	20,965
Due from component units	—	—	11,863	—	—	11,863
Due from other governmental entities	—	—	7,141	—	—	7,141
Other assets	—	—	4,767	—	38	4,805
Restricted assets:						
Cash and cash equivalents in commercial banks	106	—	—	—	1,435	1,541
Cash and cash equivalents in governmental banks	7	—	—	100,782	36,198	136,987
Cash and cash equivalents under the custody the U.S. Treasury	398,059	—	—	—	—	398,059
Insurance premiums receivables – net	61,153	—	—	—	—	61,153
Intergovernmental receivable	416	—	—	—	—	416
Receivables	43	—	—	3,089	1,492	4,624
Accrued interest receivable	1,512	—	—	—	—	1,512
Loans receivable from component unit	—	—	—	14,614	5,723	20,337
Total current assets	461,296	129,581	48,553	118,485	128,754	886,669
Noncurrent assets:						
Cash and cash equivalents in commercial banks - restricted	—	—	2,986	—	—	2,986
Loans receivable from component unit – restricted	—	—	—	300,719	148,687	449,406
Due from other funds	—	—	—	—	19,112	19,112
Due from other governmental entities	—	—	3,500	—	—	3,500
Restricted investments	—	—	—	—	44,281	44,281
Other restricted assets	—	24,420	—	1,007	—	25,427
Capital assets:						
Land and other nondepreciable assets	—	—	6,872	—	—	6,872
Depreciable assets	—	1,502	45,764	—	5,067	52,333
Total assets	461,296	155,503	107,675	420,211	345,901	1,490,586
Liabilities and net position:						
Current liabilities:						
Accounts payable and accrued liabilities	—	9,658	29,682	1,919	3,250	44,509
Notes payable	—	—	1,078	—	—	1,078
Due to other funds	14,051	—	—	—	6,668	20,719
Due to component units	—	—	39,151	—	—	39,151
Due to other governmental entities	—	—	—	—	1,827	1,827
Deferred revenue	15,404	7,997	—	—	2,345	25,746
Compensated absences	—	428	309	—	1,457	2,194
Lottery prizes	—	49,489	—	—	—	49,489
Voluntary termination benefits payable	—	550	—	—	183	733
Insurance benefits payable	68,565	—	—	—	821	69,386
Other long-term liabilities	—	—	8,907	—	—	8,907
Total current liabilities	98,020	68,122	79,127	1,919	16,551	263,739
Noncurrent liabilities:						
Notes payable	—	—	272,266	—	—	272,266
Net post-employment benefit obligation	—	—	1,572	—	—	1,572
Compensated absences	—	2,524	11,199	—	2,080	15,803
Lottery prizes	—	126,703	—	—	—	126,703
Voluntary termination benefits payable	—	4,944	—	—	715	5,659
Other long-term liabilities	—	—	12,576	—	—	12,576
Total liabilities	98,020	202,293	376,740	1,919	19,346	698,318
Net position:						
Net investment in capital assets	—	1,702	52,636	—	4,425	58,763
Restricted for emergency services	—	—	—	—	9,993	9,993
Restricted for lending activities	—	—	—	418,292	183,982	602,274
Restricted for payment of insurance benefits	363,276	—	—	—	35,923	399,199
Unrestricted (deficit)	—	(48,492)	(321,701)	—	92,232	(277,961)
Total net position (deficit)	$ 363,276	(46,790)	(269,065)	418,292	326,555	792,268

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Revenues, Expenses, and Changes in Fund Net Position (Deficit) – Proprietary Funds

Year ended June 30, 2013

(In thousands)

	Business-Type Activities – Enterprise Funds					
	Unemployment insurance	Lotteries	Puerto Rico Medical Services Administration	Puerto Rico Water Pollution Control Revolving Fund	Other proprietary	Total proprietary
Operating revenues:						
Insurance premiums	$ 267,321	—	—	—	16,486	283,807
Lottery ticket sales	—	917,411	—	—	—	917,411
Patient service, net of provision for bad debts	—	—	110,872	—	—	110,872
Interest	—	—	—	6,060	2,955	9,015
Emergency telephone service charges	—	—	—	—	20,573	20,573
Other	—	51	—	—	—	51
Total operating revenues	267,321	917,462	110,872	6,060	40,014	1,341,729
Operating expenses:						
Insurance benefits	387,336	—	—	—	3,229	390,565
Lottery prizes	—	597,885	—	—	—	597,885
Patient services	—	—	166,452	—	—	166,452
General, administrative, and other operating expenses	—	87,245	21,074	362	29,157	137,838
Total operating expenses	387,336	685,130	187,526	362	32,386	1,292,740
Operating income (loss)	(120,015)	232,332	(76,654)	5,698	7,628	48,989
Nonoperating revenues (expenses):						
U.S. government grants	185,954	—	—	22,727	5,512	214,193
Contributions to component unit	—	—	—	(1,165)	—	(1,165)
Interest and investment earnings	9,556	242	1,317	—	3,083	14,198
Interest expense	—	—	(16,528)	—	—	(16,528)
Other	—	—	3,166	—	—	3,166
Total nonoperating revenues (expenses)	195,510	242	(12,045)	21,562	8,595	213,864
Income (loss) before transfers	75,495	232,574	(88,699)	27,260	16,223	262,853
Transfers from other funds	—	—	47,370	1,880	927	50,177
Transfers to other funds	(62,744)	(211,426)	—	—	(22,915)	(297,085)
Net change in net position	12,751	21,148	(41,329)	29,140	(5,765)	15,945
Net position (deficit) – beginning of year, as restated (note 3)	350,525	(67,938)	(227,736)	389,152	332,320	776,323
Net position (deficit) – end of year	$ 363,276	(46,790)	(269,065)	418,292	326,555	792,268

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Cash Flows – Proprietary Funds

Year ended June 30, 2013

(In thousands)

	Business-Type Activities – Enterprise Funds					
	Unemployment insurance	Lotteries	Puerto Rico Medical Services Administration	Puerto Rico Water Pollution Control Revolving Fund	Other proprietary	Total proprietary
Cash flows from operating activities:						
Receipts from customers and users	$ 279,517	890,530	93,872	—	49,469	1,313,388
Other receipts	—	251	—	—	—	251
Payments to suppliers and employees	—	(104,584)	(135,616)	(219)	(36,962)	(277,381)
Payments of lottery prizes	—	(569,648)	—	—	—	(569,648)
Payments of insurance benefits	(390,649)	—	—	—	(3,242)	(393,891)
Other payments	—	—	—	—	—	—
Net cash provided by (used in) operating activities	(111,132)	216,549	(41,744)	(219)	9,265	72,719
Cash flows from noncapital financing activities:						
Intergovernmental grants and contributions	185,324	—	—	22,727	5,597	213,648
Contributions to component unit	—	—	—	(1,165)	—	(1,165)
Interest paid	—	—	(10,572)	—	—	(10,572)
Transfers from other funds	—	13,648	38,732	1,880	927	55,187
Transfers to other funds	(69,323)	(190,023)	—	—	(22,915)	(282,261)
Net cash provided by (used in) capital and related financing activities	116,001	(176,375)	28,160	23,442	(16,391)	(25,163)
Cash flows from capital and related financing activities:						
Transfers from other funds	—	—	8,564	—	—	8,564
Capital expenditures	—	—	(2,429)	—	(800)	(3,229)
Principal payments	—	(44)	(1,165)	—	—	(1,209)
Net cash provided by (used in) noncapital activities	—	(44)	4,970	—	(800)	4,126
Cash flows from investing activities:						
Interest collected on deposits, investments and loans	9,556	242	4,491	6,021	5,164	25,474
Loans originated	—	—	—	(25,301)	(14,057)	(39,358)
Issuance of long-term debt	—	—	—	—	(8,000)	(8,000)
Principal collected on loans	—	—	—	14,887	7,392	22,279
Proceeds from sales and maturities of investments	—	—	—	—	19,521	19,521
Purchases of investments	—	—	—	—	(14,358)	(14,358)
Net cash provided by (used in) investing activities	9,556	242	4,491	(4,393)	(4,338)	5,558
Net increase (decrease) in cash and cash equivalents	14,425	40,372	(4,123)	18,830	(12,264)	57,240
Cash and cash equivalents at beginning of year, as restated (note 3)	383,747	74,641	8,013	81,952	119,401	667,754
Cash and cash equivalents at end of year	$ 398,172	115,013	3,890	100,782	107,137	724,994

COMMONWEALTH OF PUERTO RICO

Statement of Cash Flows – Proprietary Funds

Year ended June 30, 2013

(In thousands)

	Business-Type Activities – Enterprise Funds					
	Unemployment insurance	Lotteries	Puerto Rico Medical Services Administration	Water Pollution Control Revolving Fund	Other proprietary	Total proprietary
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities						
Operating income (loss)	$ (120,015)	232,332	(76,654)	5,698	7,628	48,989
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities						
Interests earned on deposits, loans and investments	—	—	—	(6,060)	(2,954)	(9,014)
Depreciation	—	268	4,516	—	920	5,704
Provision for bad debts	—	—	30,017	—	19	30,036
Loss on disposition of capital assets	—	—	—	—	413	413
Changes in operating assets and liabilities:						
Decrease (increase) in accounts and loans receivable	8,075	(10)	(47,016)	—	1,946	(37,005)
Decrease (increase) in other assets	—	641	(764)	—	8	(115)
Increase (decrease) in accounts payable and accrued liabilities	—	162	48,157	143	(148)	48,314
Increase in due to other governmental entities	—	2,405	—	—	1,233	3,638
Increase (decrease) in deferred revenues	4,121	(3,840)	—	—	182	463
Increase (decrease) in compensated absences	—	170	—	—	(88)	82
Decrease in obligation for unpaid lottery prizes	—	(15,395)	—	—	—	(15,395)
Increase (decrease) in voluntary termination benefits payable	—	(184)	—	—	119	(65)
Decrease in liability for insurance benefits payable	(3,313)	—	—	—	(13)	(3,326)
Total adjustments	8,883	(15,783)	34,910	(5,917)	1,637	23,730
Net cash provided by (used in) operating activities	$ (111,132)	216,549	(41,744)	(219)	9,265	72,719
Non-cash capital and financing activities:						
Retirement of capital assets	$ —	—	851	—	—	851
Payments to suppliers with proceeds from line of credit	$ —	—	4,032	—	—	4,032
Non-cash interest expense charged from line of credit	$ —	—	6,000	—	—	6,000

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Fiduciary Net Position – Fiduciary Funds

June 30, 2013

(In thousands)

		Pension (and other employee benefit) trust	Agency
Assets:			
Cash and cash equivalents in commercial banks			
Unrestricted	$	283,071	666,244
Restricted		26,503	—
Cash and cash equivalents in governmental banks			
Unrestricted		139,937	433,944
Restricted		35,811	—
Collateral from securities lending transactions		174,833	—
Investments at fair value:			
Bonds and notes		2,112,016	—
Nonexchange commingled trust funds		1,639,991	—
Stocks		97,374	—
Investments in limited partnerships		69,890	—
Receivables – net:			
Accounts		131,033	—
Loans and advances		1,202,629	—
Accrued interests and dividends		19,532	—
Other		42,526	—
Capital assets – net		27,906	—
Other assets		36,023	—
Total assets		6,039,075	1,100,188
Liabilities:			
Accounts payable and accrued liabilities		46,860	1,100,188
Securities lending obligations		174,833	—
Interest payable		13,876	—
Other liabilities		55,081	—
Bonds payable		3,051,189	—
Total liabilities		3,341,839	1,100,188
Net position – held in trust for pension benefits	$	2,697,236	—

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Statement of Changes in Fiduciary Net Position – Pension (and Other Employee Benefit) Trust Funds

Year ended June 30, 2013

(In thousands)

Additions:		
Contributions:		
Sponsor	$	568,107
Participants		446,195
Special		385,739
Total contributions		1,400,041
Investment income and investment expense:		
Interest		199,782
Dividends		2,935
Net change in fair value of investments		213,325
Investment expenses		(6,854)
Net investment income		409,188
Other income		24,070
Total additions		1,833,299
Deductions:		
Pension and other benefits		2,205,792
Refunds of contributions		59,973
General and administrative		73,404
Interest on bonds payable		192,230
Total deductions		2,531,399
Net change in net position held in trust for pension benefits		(698,100)
Net position held in trust for pension benefits:		
Beginning of year		3,395,336
End of year	$	2,697,236

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Net Position – Major Component Units

June 30, 2013

(In thousands)

	Major component units								
Assets:	Government Development Bank for Puerto Rico	Puerto Rico Highways and Transportation Authority	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority	University of Puerto Rico	Puerto Rico Health Insurance Administration	Major component units totals	Nonmajor component units totals	All component units totals
Current assets:									
Cash and cash equivalents in commercial banks	$ 999,165	2,967	122,130	101,680	20,371	13,156	1,259,469	198,149	1,457,618
Cash and cash equivalents in governmental banks	—	20,337	—	—	58,637	55,104	134,078	169,630	303,708
Cash equivalents in PRGITF	—	—	—	35,035	—	—	35,035	—	35,035
Investments	2,026,673	—	—	—	92,872	—	2,119,545	2,603,691	4,723,236
Collateral from securities lending transactions	—	—	—	—	—	—	—	102,689	102,689
Receivables – net:									
Insurance premiums	—	—	—	—	—	—	—	40,542	40,542
Intergovernmental	—	29,618	—	2,702	26,590	68,611	127,521	2,222	129,743
Accounts	—	13,890	776,550	71,848	43,831	57,224	963,343	125,071	1,088,414
Loans and advances	6,244,189	—	—	—	4,598	—	6,248,787	273,328	6,522,115
Accrued interest	275,365	635	—	—	—	—	276,000	25,683	301,683
Other governmental entities	—	603	356,495	52,278	36,511	66,352	512,239	30,090	542,329
Other	18,110	—	117,653	—	—	—	135,763	25,216	160,979
Due from:									
Primary government	97,154	—	82,982	55,497	49,806	44,610	330,049	98,514	428,563
Component units	3,378,372	1,173	178,172	12,432	18,846	—	3,588,995	101,470	3,690,465
Inventories	—	—	521,516	25,284	4,556	—	551,356	17,743	569,099
Prepaid expenses	—	7,418	5,082	6,377	889	4,289	24,055	15,446	39,501
Restricted assets:									
Cash and cash equivalents in commercial banks	86,501	118,829	431,121	273,358	20,746	—	930,555	28,589	959,144
Cash and cash equivalents in governmental banks	—	129,672	—	109,421	—	1,321	240,414	148,204	388,618
Investments	988,885	476,969	575,282	—	160,682	—	2,201,818	1,830,702	4,032,520
Other restricted assets	10,997	—	—	—	—	—	10,997	62,409	73,406
Deferred issue cost	31,105	77,707	55,810	63,335	—	—	227,957	28,603	256,560
Deferred expenses and other assets	4,224	—	10,898	—	74,341	—	89,463	16,867	106,330
Real estate held for sale or future development	65,595	—	—	—	—	—	65,595	161,919	227,514
Capital assets, not being depreciated	90,018	2,387,602	1,119,211	1,167,557	97,316	—	4,861,704	1,641,234	6,502,938
Capital assets, depreciable – net	9,910	8,772,139	5,719,347	6,252,911	867,196	211	21,621,714	2,327,345	23,949,059
Total assets	14,326,263	12,039,559	10,072,249	8,229,715	1,577,788	310,878	46,556,452	10,075,356	56,631,808
Deferred Outflows of Resources:									
Deferred outflows of resources	—	10,656	85,004	—	—	—	95,660	—	95,660
Total deferred outflow of resources	—	10,656	85,004	—	—	—	95,660	—	95,660

COMMONWEALTH OF PUERTO RICO

Combining Statement of Net Position – Major Component Units

June 30, 2013

(In thousands)

	Major component units								
Liabilities and Deferred Inflow of Resources:	Government Development Bank for Puerto Rico	Puerto Rico Highways and Transportation Authority	Puerto Rico Electric Power Authority	Puerto Rico Aqueduct and Sewer Authority	University of Puerto Rico	Puerto Rico Health Insurance Administration	Major component units totals	Nonmajor component units totals	All component units totals
Liabilities:									
Accounts payable and accrued liabilities	81,608	181,319	889,651	254,570	66,005	119,195	1,592,348	496,877	2,089,225
Deposits and escrow liabilities	5,576,669	—	181,482	82,247	—	—	5,840,398	446,224	6,286,622
Due to:									
Primary government	—	—	—	469,743	11,863	7,239	488,845	87,778	576,623
Component units	—	2,081,062	8,253	147,621	137,658	183,251	2,557,845	1,132,620	3,690,465
Other governmental entities	—	8,165	322,212	20,863	15,732	—	366,972	68,674	435,646
Securities lending obligations and reverse repurchase agreements	634,301	—	—	—	—	—	634,301	178,889	813,190
Interest payable	49,022	254,687	187,432	102,922	4,337	110	598,510	63,178	661,688
Deferred revenue	—	—	—	18,178	—	—	18,178	98,573	116,751
Liability for automobile accident insurance, workmen compensation and medical claims	—	—	—	—	—	150,005	150,005	925,846	1,075,851
Liabilities payable within one year:									
Notes payable	389,651	—	754,922	—	839	—	1,145,412	73,529	1,218,941
Bonds payable	35,832	101,875	399,215	16,900	20,070	—	573,892	119,730	693,622
Accrued compensated absences	2,389	—	87,755	12,725	35,555	485	138,909	40,874	179,783
Voluntary termination benefits payable	—	—	—	—	—	392	392	11,373	11,765
Capital leases	—	—	—	—	—	—	—	901	901
Other long-term liabilities	28,633	—	39,594	7,974	1,641	—	77,842	9,553	87,395
Liabilities payable after one year:									
Notes payable	4,451,088	—	7,294	—	1,434	—	4,459,816	1,450,882	5,910,698
Commonwealth appropriation bonds	3,431	—	—	398,547	—	—	401,978	107,667	509,645
Bonds payable	434,732	4,630,951	7,727,418	4,107,279	561,738	—	17,462,118	1,636,945	19,099,063
Accrued compensated absences	2,302	10,799	122,356	30,411	130,700	323	296,891	59,325	356,216
Voluntary termination benefits payable	18,500	88,202	—	—	—	4,343	111,045	112,808	223,853
Capital leases	—	—	—	—	—	—	—	29,570	29,570
Hedging derivative instruments – interest rate swaps	—	142,418	85,004	—	—	—	227,422	—	227,422
Other long-term liabilities	238,799	139,668	136,050	20,260	106,672	16,237	657,686	163,139	820,825
Total liabilities	11,946,957	7,639,146	10,948,638	5,690,240	1,094,244	481,580	37,800,805	7,314,955	45,115,760
Deferred inflows of resources									
Deferred inflows of resources - Service concession arrangements	—	1,165,674	—	—	—	—	1,165,674	619,416	1,785,090
Total deferred outflow of resources	—	1,165,674	—	—	—	—	1,165,674	619,416	1,785,090
Net position:									
Net investment in capital assets	89,614	2,956,277	23,378	2,745,582	391,767	211	6,206,829	1,650,497	7,857,326
Restricted for:									
Capital projects	—	41,793	—	—	3,350	—	45,143	235,793	280,936
Debt service	66,113	459,245	—	—	57,295	—	582,653	270,906	853,559
Affordable housing and related loan insurance programs	121,598	—	—	—	—	—	121,598	—	121,598
Student loans and other educational purposes	—	—	—	—	89,482	—	89,482	10,192	99,674
Other specified purposes	—	—	—	82,760	10,968	—	93,728	173,044	266,772
Unrestricted (deficit)	2,101,981	(211,920)	(814,763)	(288,867)	(69,318)	(170,913)	546,200	(199,447)	346,753
Total net position	$ 2,379,306	3,245,395	(791,385)	2,539,475	483,544	(170,702)	7,685,633	2,140,985	9,826,618

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Activities – Major Component Units

Year ended June 30, 2013

(In thousands)

	Expenses	Program revenues: Charges for services	Program revenues: Operating grants and contributions	Program revenues: Capital grants and contributions	Net revenues (expenses) and changes in net position	General revenues and transfers: Payments from primary government	General revenues and transfers: Payments from (to) other component units	General revenues and transfers: Grants and contributions not restricted to specific programs	General revenues and transfers: Excise taxes	General revenues and transfers: Interest and investment earnings	General revenues and transfers: Other	Change in net position	Net position beginning of year, as restated (see note 3)	Net position end of year
Major component units:														
Government Development Bank for Puerto Rico	$ 864,077	571,640	170,501	—	(121,936)	—	—	—	—	—	—	(121,936)	2,501,242	2,379,306
Puerto Rico Highways and Transportation Authority	1,154,822	217,720	—	428,930	(508,172)	258,424	—	—	—	42,425	66,869	(140,454)	3,385,849	3,245,395
Puerto Rico Electric Power Authority	5,191,088	4,843,016	—	31,979	(316,093)	—	—	—	—	26,329	14,065	(275,699)	(515,686)	(791,385)
Puerto Rico Aqueduct and Sewer Authority	1,233,804	735,693	—	19,859	(478,252)	6,132	—	—	—	7,478	5,202	(459,440)	2,998,915	2,539,475
University of Puerto Rico	1,414,968	216,482	138,337	5,219	(1,054,930)	834,208	67,832	161,651	—	4,318	9,855	22,934	460,610	483,544
Puerto Rico Health Insurance Administration	2,372,473	1,406,190	—	—	(966,283)	887,725	—	—	—	61,836	—	(16,722)	(153,980)	(170,702)
Nonmajor component units	2,135,444	1,518,821	69,788	20,678	(526,157)	276,245	(67,832)	5,553	65,642	144,627	29,586	(72,336)	2,213,321	2,140,985
	$ 14,366,676	9,509,562	378,626	506,665	(3,971,823)	2,262,734	—	167,204	65,642	287,013	125,577	(1,063,653)	10,890,271	9,826,618

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2013

(1) Summary of Significant Accounting Policies

The Commonwealth of Puerto Rico (the Commonwealth) was constituted on July 25, 1952, under the provisions of the Commonwealth's Constitution (the Constitution) as approved by the people of Puerto Rico and the U.S. Congress. The Constitution provides for the separation of powers of the executive, legislative, and judicial branches of the government. The Commonwealth assumes responsibility for general government, public safety, health, public housing and welfare, education, and economic development.

The accompanying basic financial statements of the Commonwealth are presented in conformity with U.S. Generally Accepted Accounting Principles (US GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB).

The accompanying basic financial statements present the financial position of the Commonwealth and its various funds, the results of operations of the Commonwealth and its various funds and fund types, and the cash flows of the proprietary funds. The basic financial statements are presented as of June 30, 2013 and for the year then ended.

(a) *Financial Reporting Entity*

The basic financial statements of the Commonwealth include all departments, agencies, funds, functions and public corporations that have been determined to meet the requirements for inclusion in the Commonwealth's financial reporting entity. The Commonwealth has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Commonwealth are such that exclusion would cause the Commonwealth's basic financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include when the Commonwealth appoints a voting majority of an organization's governing body and it has (i) the ability to impose its will on that organization or (ii) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Commonwealth. In situations where the Commonwealth has not appointed the voting majority of an organization's governing body, the GASB has then provided as criteria for financial accountability the fiscal dependency of such organizations on the Commonwealth when there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Commonwealth.

As required by US GAAP, these basic financial statements present the Commonwealth and its component units.

(b) *Component Units*

The financial statements of the component units discussed below have been included in the financial reporting entity either as blended component units or as discretely presented component units in accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statements No. 39 and No. 61.

Blended Component Units

The following entities, while legally separate from the Commonwealth, meet the blending criteria to be reported as part of the primary government as follows:

Public Buildings Authority (PBA) – PBA is governed by a seven member board comprised of the Secretary of the Department of Transportation and Public Works (DTPW), the Secretary of the Department of Education of the Commonwealth, the President of the Government Development Bank for Puerto Rico (GDB), and four members appointed by the Governor of Puerto Rico with the advice and consent of the Senate. It is a legally separate entity, whose activities are blended within the primary government because it exists to construct, purchase, or lease office, school, health, correctional, social welfare, and other facilities for lease to the Commonwealth's departments, component units, and instrumentalities. Bonds issued by the PBA to finance such facilities are payable from lease collections, which are largely derived from Commonwealth appropriations and are further secured by the Commonwealth's guaranty. Therefore the financial statements of the PBA are blended in the Commonwealth's fund financial statements as a special revenue, debt service and capital project fund.

Puerto Rico Infrastructure Financing Authority (PRIFA) – PRIFA is governed by a seven member board comprised of five members appointed by the board of the directors of the GDB, the Secretary of the Treasury of the Commonwealth and one member appointed by the Governor. The members of PRIFA's board of directors are executives on trustworthy positions, named and supervised by the Governor. The President is appointed by the Governor from among its members. PRIFA is a financing authority whose responsibilities are to provide financial, administrative, consulting, technical, advisory, and other types of assistance to other component units and governmental instrumentalities of the Commonwealth, which are authorized to develop infrastructure facilities and to establish alternate means for financing them. PRIFA's total debt outstanding, mostly Special Tax Revenue Bonds comprising over 95% of its total debt, is expected to be repaid entirely or almost entirely from resources of the Commonwealth, consisting of federal excise taxes levied on the rum and other articles produced in Puerto Rico and sold in the United States, which taxes are collected by the US Treasury and returned to the Commonwealth. PRIFA's remaining debt, other than the Special Tax Revenue Bonds, is currently being repaid with Commonwealth's legislative appropriations. Therefore, PRIFA's financial statements are blended in the Commonwealth's fund financial statements as a special revenue, debt service and capital project fund.

Puerto Rico Maritime Shipping Authority (PRMSA) – PRMSA is governed by the President of the GDB. The operations of PRMSA have been limited to processing the remaining legal requirements resulting from the sale of certain maritime operations formerly owned and operated by PRMSA. Such legal requirements consist solely of servicing the long-term debt that remained in PRMSA after the sale. The Commonwealth is required to annually appropriate funds in its general operating budget to provide for the payment of principal and interest on such debt, which is the total debt outstanding. Therefore, PRMSA's financial statements are blended in the Commonwealth's fund financial statements as a debt service fund.

Puerto Rico Medical Services Administration (PRMeSA) — PRMeSA is governed by a ten member board comprising the Secretary of the Department of Health of the Commonwealth, who is the Chairman, the Dean of the Medical Sciences Faculty of the University of Puerto Rico (UPR), the

President of the board of directors of the Puerto Rican League Against Cancer, the Mayor of the Municipality of San Juan, the Administrator of the State Insurance Fund Corporation, the Administrator of the Administration of Mental Health and Addiction Services, the President of the Medical Policy and Administration Committee, the Secretary of the Department of Family, and two members appointed by the Secretary of the Department of Health of the Commonwealth. Its purpose is to plan, organize, operate, and administer the centralized health services, provided in support of the hospital and other functions, offered by the member institutions and users of the medical complex known as the Puerto Rico Medical Center. The Commonwealth is required to annually appropriate funds in its general operating budget to provide for the payment of principal and interest on such debt, which is the total debt outstanding. Therefore, PRMeSA's financial statements are blended in the Commonwealth's fund financial statements as an enterprise fund.

Puerto Rico Sales Tax Financing Corporation (Known as COFINA, its Spanish Acronym) – COFINA was created under Act No. 91 approved on May 13, 2006, as amended by the Legislative Assembly of the Commonwealth. COFINA was originally created for the purpose of financing the payment, retirement or defeasance of certain debt obligations of the Commonwealth outstanding at June 30, 2006 (the 2006 Appropriation Debt). During 2009, the Commonwealth's Legislative Assembly expanded the purposes of COFINA to assist operational expenses of the Commonwealth for 2009 through 2011 and for 2012, to the extent included in the annual budget of the Commonwealth. The members of the board of directors of COFINA are the same as the ones of the GDB. Since COFINA's total outstanding debt of Sales Tax Revenue Bonds is being repaid and pledged with Commonwealth's sales and use taxes as described in note 12, its financial statements are blended in the Commonwealth's fund financial statements as a special revenue and debt service fund.

Special Communities Perpetual Trust (SCPT) – SCPT is governed by a board of directors composed of eleven members: the Secretary of the Department of Housing of the Commonwealth, the Secretary of the DTPW of the Commonwealth, the Coordinator for the Social and Economic Financing of the Special Communities, one mayor of a municipality of Puerto Rico, one community leader resident in one special community, four private citizens representing the public interest, and two public employees. All members of the board of directors are appointed by the Governor. SCPT's principal purpose is to fund development projects that address the infrastructure and housing needs of the underprivileged communities. Over the years since its inception, SCPT has seen its revenue sources diminished as its principal assets, mortgage loans, are being fully reserved. SCPT has accumulated debt with the GDB, which is being repaid, as required by the legislation creating SCPT, with Commonwealth's appropriations. Therefore, SCPT's financial statements are blended in the Commonwealth's fund financial statements as a special revenue and debt service fund.

The Children's Trust – The Children's Trust is governed by a seven member board comprised of the Governor, who designates the president of the board, the President of the GDB, the Director of the Office of Management and Budget (OMB) of the Commonwealth, the Secretary of Justice of the Commonwealth, and three private citizens appointed by the Governor with the advice and consent of the Senate. The Children's Trust's sole operation consists of providing financial assistance principally to the Commonwealth's departments to carry out projects aimed at promoting the well-being of families, children and youth of Puerto Rico, especially in the areas of education, recreation, and health. The operation of the Children's Trust is financed with the moneys being

received by the Commonwealth from a global settlement agreement (GSA) dated November 23, 1998 between certain tobacco companies and certain states, territories, and other jurisdictions of the United States of America, including the Commonwealth. The GSA calls for annual payments through the year 2025, which will vary due to inflationary and volume adjustments. After 2025, the tobacco companies shall continue making contributions in perpetuity. As The Children's Trust provides financial assistance entirely or almost entirely to the Commonwealth's departments and its total debt outstanding is being repaid and pledged with the GSA resources received by the Commonwealth, its financial statements are blended in the Commonwealth's fund financial statements as a special revenue and debt service fund.

The COFINA debt service fund and the COFINA special revenue fund are presented as major governmental funds, while Puerto Rico Medical Services Administration is presented as a major enterprise fund. All the other blended component units are reported in the other governmental funds column. Complete financial statements of the blended component units can be obtained directly by contacting their respective administrative offices at:

Public Buildings Authority
P.O. Box 41029 – Minillas Station
San Juan, PR 00940-1029

Puerto Rico Infrastructure Financing Authority
P.O. Box 41207 Minillas Station
San Juan, PR 00940

Puerto Rico Maritime Shipping Authority
P.O. Box 42001
San Juan, PR 00940-2001

Puerto Rico Medical Services Administration
P.O. Box 2129
San Juan, PR 00922-2129

Puerto Rico Sales Tax Financing Corporation
P.O. Box 42001
San Juan PR 00940-2001

Special Communities Perpetual Trust
P.O. Box 42001
San Juan, PR 00940-2001

The Children's Trust
P.O. Box 42001
San Juan, PR 00940-2001

Discretely Presented Component Units

The following component units, all legally separate entities, consistent with GASB Statement No. 14, as amended by GASB Statements No. 39 and 61, are discretely presented in the basic financial statements principally because of the nature of the services they provide, the Commonwealth's ability to impose its will, principally through the appointment of their governing authorities, and because the component units provide specific financial benefits to, or impose financial burdens on, the Commonwealth (with the exception of Culebra Conservation and Development Authority, which does not meet all these criteria, but the Commonwealth has determined it would be misleading to exclude it from the Commonwealth's financial reporting entity). These component units are not blended with the primary government because they do not provide services entirely, or almost entirely to the primary government, their governing board is not substantively the same as that of the primary government, the primary government does not have any operational responsibilities over them, and they do not have total debt outstanding being repaid entirely or almost entirely with resources of the primary government. These have been classified by management between major and nonmajor component units. A major discretely presented component unit is determined by the Commonwealth based on the nature and significance of its

relationship to the primary government. This determination is based on the evaluation of the following factors: a) the services provided by the component unit to the citizenry are such that separate reporting as a major component unit is considered to be essential to financial statement users, b) there are significant transactions with the primary government, or c) there is a significant financial benefit or burden relationship with the primary government. If a component unit is expected to meet some of these considerations for inclusion as major component unit in a future year, the Commonwealth may elect to report it as a major component unit.

Major Component Units

Government Development Bank for Puerto Rico (GDB) – GDB is governed by a seven member board appointed by the Governor. GDB's boards of directors' members are executives on a trustworthy position, named and supervised by the Governor. The GDB acts as fiscal agent, depository of funds, disbursing agent, investor and financial advisor for the Commonwealth, its public corporations, and municipalities in connection with the issuance of bonds and notes; and it also makes loans and advances funds predominantly to the Commonwealth's departments, component units, and municipalities.

Puerto Rico Highways and Transportation Authority (PRHTA) – PRHTA is governed by the Secretary of DTPW. The PRHTA has broad powers to carry out its responsibilities in accordance with DTPW's overall transportation policies. These powers include, among other things, the complete control and supervision of any highway facilities constructed, owned, or operated by the PRHTA, the ability to set tolls for the use of the highway facilities, and the power to issue bonds, notes, or other obligations. The PRHTA plans and manages the construction of all major projects relating to the Commonwealth's toll highway system, undertakes major repairs, and maintains the toll ways. The Commonwealth has the ability to significantly influence the toll rates charged by the PRHTA.

Puerto Rico Electric Power Authority (PREPA) – PREPA is governed by a nine member board comprising the Secretary of the Department of Transportation and Public Works (DTPW), six members appointed by the Governor with the advice and consent of the Senate, and two members representing the consumers' interest elected in a referendum carried out by the Puerto Rico Consumer Affairs Department. Board members are appointed or elected for a period of four years. PREPA is responsible for conserving, developing, and utilizing the power resources in order to promote the general welfare of Puerto Rico and owns and operates the Commonwealth's electrical power generation, transmission, and distribution system. The Commonwealth is entitled to receive contributions in lieu of taxes from PREPA.

Puerto Rico Aqueduct and Sewer Authority (PRASA) – PRASA is governed by a nine member board comprising six members appointed by the Governor with the advice and consent of the Senate (including the President of the Puerto Rico Planning Board), the Executive President of Puerto Rico Electric Power Authority, the Executive Director of Mayors' Federation, and the Executive Director of Mayors' Association. PRASA owns and operates the Commonwealth's system of public water supply and sanitary sewer facilities. PRASA is authorized, among other things, to borrow money and issue revenue bonds for any of its corporate purposes. The Commonwealth guarantees the principal and interest payments of certain outstanding bonds and of all future bonds issued to

refinance those outstanding bonds at the date of refinancing. Act No. 45 of July 28, 1994 was later amended to include other loans under the State Revolving Fund Program (SRFP). The Commonwealth provides financial support to PRASA through legislative appropriations.

University of Puerto Rico (UPR) – The UPR is governed by a thirteen-member Governing Board, nine of which are appointed by the Governor of Puerto Rico and confirmed by the Senate of Puerto Rico. The remaining members of the Governing Board consist of two tenured professors and two full-time students. The Secretary of the Department of Education of the Commonwealth becomes ex-officio member of the governing board. The Commonwealth provides financial support to the UPR through legislative appropriations.

Puerto Rico Health Insurance Administration (PRHIA) – PRHIA is governed by a board of directors, which, by law, is composed of eleven members (six compulsory members and five discretionary members). The compulsory members are the Secretary of Health of the Commonwealth, the Secretary of the Treasury of the Commonwealth, the Director of the Office of Management and Budget, the President of the GDB, the Insurance Commissioner of Puerto Rico, and the Administrator of the Administration of Services of Mental Health and Addiction. The five discretionary members are appointed by the Governor, with the advice and consent of the Senate. The board of directors' president is designated by the Governor and all discretionary board members are executives on a trustworthy position. PRHIA was created for implementing, administering, and negotiating a health insurance system through contracts with insurance underwriters to provide quality medical and hospital care to low income individuals, employees of the Commonwealth and policemen who voluntarily subscribe to the Puerto Rico health insurance medical plan. The Commonwealth provides financial support to PRHIA through legislative appropriations.

Nonmajor Component Units

Agricultural Enterprises Development Administration (AEDA) – AEDA is governed by the Secretary of Agriculture of the Commonwealth. The purpose of AEDA is to provide a wide variety of services and incentives to the agricultural sector. The Commonwealth has the ability to impose its will on AEDA. The Commonwealth provides financial support to AEDA through legislative appropriations.

Automobile Accidents Compensation Administration (AACA) – AACA is governed by a Cabinet Member, and a four member board appointed by the Governor with the advice and consent of the Senate. The AACA operates a system of compulsory insurance coverage for all registered motor vehicles and compensates citizens for injuries arising from motor vehicle accidents. The Commonwealth has the ability to significantly influence rates charged by the AACA. The Commonwealth has access to AACA's resources.

Cardiovascular Center Corporation of Puerto Rico and the Caribbean (CCCPRC) – CCCPRC is governed by a seven member board comprising of the Secretary of Health of the Commonwealth, the Director of the Medical Sciences Campus of the UPR, the Executive Director of the Puerto Rico Medical Services Administration, and four additional members appointed by the Governor with the advice and consent of the Senate, one of which should be from the Cardiology Society of Puerto Rico and another a member of a cardiology foundation properly registered in the Department of State of the Commonwealth. The purpose of the CCCPRC is to provide special treatment to patients suffering from cardiovascular diseases. The Commonwealth provides financial support to the

CCCPRC through legislative appropriations.

Company for the Integral Development of the "Península de Cantera" (CIDPC) – CIDPC is governed by an eleven member board, of which six members are appointed by the Governor and five members appointed by the Mayor of the Municipality of San Juan. The CIDPC was created to establish and implement a comprehensive development plan for the Península de Cantera area. Its main function is to supervise and coordinate governmental efforts and also promote and manage private sector initiatives for the improvements and rehabilitation of the aforementioned area. The Commonwealth provides financial support to the CIDPC.

Corporation for the "Caño Martín Peña" ENLACE Project (CPECMP) – CPECMP was created for the purpose of coordinating the public policy related to the rehabilitation of the Caño Martín Peña area. The CPECMP is governed by a board of directors of thirteen members of which seven members are appointed by the Governor and six members appointed by the Mayor of the Municipality of San Juan. The Commonwealth generally provides financial support to the CPECMP through legislative appropriations.

Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico (CDASFIPR) – CDASFIPR was created for the development of the arts and the film industry in Puerto Rico and is governed by a seven member board comprising of the Secretary of Economic Development and Commerce, who is the president, the President of the Puerto Rico Public Broadcasting Corporation, the Secretary of Treasury, the Executive Director the Puerto Rico Institute of Culture and three additional members appointed by the Governor with the advice and consent of the Senate. The Commonwealth generally provides financial support to the CDASFIPR through legislative appropriations.

Corporation of Industries for the Blind and Mentally Retarded and Incapacitated Persons of Puerto Rico (CIBMRIP) – CIBMRIP is governed by the Secretary of the Family of the Commonwealth, who is also the President of the CIBMRIP. The purpose of the Corporation is to establish and organize workshops in Puerto Rico, which will provide training, employment and other services that is deemed appropriate or necessary for the rehabilitation of blind people, mentally retarded or other delayed mental or other handicaps which constitute obstacles to their occupational capacity, residing in Puerto Rico. The Commonwealth provides financial support to the CIBMRIP through Commonwealth appropriations.

Culebra Conservation and Development Authority (CCDA) – CCDA was created to formulate and administer the program and plan for the conservation, use, and development of natural resources of the Municipality of Culebra. The CCDA is administered through a board of directors composed of seven members, including the Mayor of the Municipality of Culebra and six additional members appointed by the Mayor of the Municipality of Culebra and confirmed by the municipal legislature. The administration and operations of the CCDA are conducted by an executive director elected by the board of directors. The Commonwealth provides financial support to the CCDA through legislative appropriations. Although CCDA's board of directors is not appointed by the Commonwealth and it is not fiscally dependent on the Commonwealth, the Commonwealth believes it would be misleading to exclude it from its reporting entity, given the financial support provided by the Commonwealth.

Economic Development Bank for Puerto Rico (EDB) – EDB is governed by a nine members board comprising the President of the GDB, who is the Chairman, the Secretary of Agriculture of the Commonwealth, the Secretary of the Department of Economic Development and Commerce of the Commonwealth, the Executive Director of the Puerto Rico Industrial Development Company, the Executive Director of the Puerto Rico Tourism Company, and four members representing the private sector and appointed by the Governor with the advice and consent of the Senate. Private sector members are appointed for a maximum period of three years. The EDB is responsible for the promotion and development of the private sector economy of the Commonwealth. This purpose is to be met by granting direct loans, loan guarantees, loan participation, and/or direct investments to any person or business organization devoted to manufacturing, agriculture, trade, tourism, or other service enterprises with preference, but not limited, to economic activities that may have the effect of substituting imports. The Commonwealth has the ability to impose its will on the EDB.

Employment and Training Enterprises Corporation (ETEC) – ETEC is governed by an eleven member consulting board, which includes two private citizens appointed by the Governor with the consent of the Senate. The purpose of ETEC is to provide training for management, business development, and employment for inmates of the correctional institutions of the Commonwealth. The Commonwealth generally provides financial support to ETEC through legislative appropriations and has the ability to impose its will on ETEC.

Farm Insurance Corporation of Puerto Rico (FICPR) – FICPR is governed by a five member board consisting of the Secretary of Agriculture of the Commonwealth, the Dean of the Agricultural Sciences Faculty of the UPR Mayaguez Campus, a representative of the GDB, and two bona fide farmers appointed by the Governor with the advice and consent of the Senate. The purpose of the FICPR is to provide insurance to farmers against losses in their farms caused by natural disasters. The Commonwealth has the ability to impose its will on the FICPR.

Fine Arts Center Corporation (FACC) – FACC is governed by a nine member board comprising the President of the Musical Arts Corporation and eight members named by the Governor. FACC was created with the purpose of administering the Fine Arts Center. The Commonwealth provides financial support to FACC through legislative appropriations.

Institute of Puerto Rican Culture (IPRC) – IPRC is governed by a nine member board comprising the President of Musical Arts Corporation and eight members appointed by the Governor with the advice and consent of the Senate. The IPRC is responsible for implementing the public policy related to the development of Puerto Rican arts, humanities and culture. The Commonwealth provides financial support to the IPRC through legislative appropriations.

Institutional Trust of the National Guard of Puerto Rico (ITNGPR) – ITNGPR is governed by a seven member board comprising of the Adjutant General of the Puerto Rico National Guard, the President of the GDB, the Secretary of Justice of the Commonwealth, three militaries from the Puerto Rico National Guard, and one representative from the community appointed by the Governor. ITNGPR's purpose is to provide life insurance, retirement benefits, and economic assistance to the active members of the Puerto Rico National Guard and their families. The Commonwealth generally provides financial support to the ITNGPR through legislative appropriations and has the ability to impose its will on the ITNGPR.

Land Authority of Puerto Rico (LAPR) – LAPR is governed by a five member board consisting of the Secretary of Agriculture of the Commonwealth and four members appointed by the Governor. LAPR was created to carry out the provisions of the Land Law of Puerto Rico, principally geared to the agricultural development of Puerto Rico. LAPR maintains debt that is paid with Commonwealth's appropriations and funds generated by LAPR operations.

Local Redevelopment Authority for Roosevelt Roads Puerto Rico (LRA) – LRA is governed by a nine member board comprising the Secretary of Economic Development and Commerce of the Commonwealth, who is the Chairman, two members appointed by the Mayor of the Municipality of Ceiba, one member appointed by the Mayor of the Municipality of Naguabo, one member appointed by the President of the Senate, one member appointed by the Speaker of the House of Representatives and three additional members appointed by the Governor, all to possess known interest and expertise in the areas of planning; commercial, tourism, residential and institutional development; real estate; tourism and recreational facilities administration; and infrastructure projects' management. The LRA is responsible for the implementation of the reuse and redevelopment plan for the former Navy Station of Roosevelt Roads located in Ceiba, Puerto Rico. Some of the activities involved in these redevelopment plans include the direction, supervision, regulation and maintenance of the economic development on the land and facilities formerly occupied by the US Navy. The Commonwealth generally provides financial support to the LRA through legislative appropriations.

Musical Arts Corporation (MAC) – MAC is governed by a seven member board appointed by the Governor with the advice and consent of the Senate. MAC was created to promote the development of the arts and cultural programs of the Commonwealth. The Commonwealth provides financial support to MAC through legislative appropriations.

National Parks Company of Puerto Rico (NPCPR) – NPCPR is governed by a nine member board comprising the Secretary of Recreation and Sports Department of the Commonwealth (the Secretary), who is the chairman, the Secretary of the Department of Education of the Commonwealth, the Executive Director of the Puerto Rico Tourism Company, the Secretary of the Department of Natural and Environmental Resources of the Commonwealth, and five members appointed by the Governor with the recommendation from the Secretary and with known interest in the development and preservation of parks in the private sector. The NPCPR is responsible for the operation of all national parks and the protection, conservation, maintenance and use of parks, beaches, forests, and natural and historical monuments for the optimum enjoyment of present and future generations. The Commonwealth provides financial support to the NPCPR through legislative appropriations.

Port of the Americas Authority (PAA) – PAA is governed by an eleven member board comprising of the Secretary of DTPW, the Secretary of Economic Development and Commerce, the Executive Director of Puerto Rico Industrial Development Company, the Majors of the Municipalities of Ponce, Peñuelas and Guayanilla and five private citizens appointed by the Governor with the consent of the Senate. The main purpose of the PAA is the planning, development and construction of a large scale container terminal in the city of Ponce, Puerto Rico. The Commonwealth generally provides financial support to the PAA through legislative appropriations.

Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives (PCSDIPRC) – PCSDIPRC is governed by a nine member board comprising of the Administrator of the Cooperative Development Administration, the Commissioner of Financial Institutions of Puerto Rico, the Secretary of the Treasury of the Commonwealth, the Inspector of Cooperatives, three citizens representing the cooperative movement, one representative of the Puerto Rico Cooperatives League, and one private citizen representing the public interest. PCSDIPRC has the responsibility of providing to all the cooperatives and the Federation of Cooperatives of Puerto Rico insurance coverage over the stocks and deposits, and for monitoring the financial condition of the insured cooperatives, and the uninsured cooperatives when requested by the Inspector of Cooperatives. The Commonwealth has the ability to impose its will on PCSDIPRC.

Puerto Rico Conservatory of Music Corporation (PRCMC) – PRCMC is governed by a seven member board appointed by the Governor, with the advice and consent of the Senate. The PRCMC is responsible for providing the Puerto Rican community and especially its youths with the required facilities to educate and perfect their musical skills, including secondary education programs for developing musical arts. It prepares the artistic element that nourishes the Puerto Rico Symphony Orchestra and other musical organizations, and coordinates the governmental efforts to interested industries, private enterprises, and particular citizens. The Commonwealth occasionally provides financial support to the PRCMC through legislative appropriations.

Puerto Rico Convention Center District Authority (PRCCDA) – PRCCDA is governed by a nine member board of directors comprising of four members from the public sector and five members from the private sector. The public sector members comprise the Secretary of Economic Development and Commerce of the Commonwealth, who is the Chairman, the Executive Director of the Puerto Rico Tourism Company (PRTC), the president of the GDB, and one member from the public sector. The private sector members are individuals having experience in the areas of hotel operations, tourism, real estate, or convention centers who are appointed by the Governor with the advice and consent of the Senate. The PRCCDA was created to develop, own, finance, plan, design, construct, operate, manage, and promote the new Puerto Rico Convention Center and the Puerto Rico Convention District. The PRCCDA also has the ownership interest as well as other rights and obligations related to the development and operations of the Jose Miguel Agrelot Coliseum. The Commonwealth provides financial support to the PRCCDA through legislative appropriations.

Puerto Rico Council on Education (PRCE) – PRCE is governed by a board comprising nine members appointed by the Governor with the consent of the Senate. Its purpose is to develop higher education, to administer the licensing and certification of institutions of higher education, and to administer scholarship funds. The Commonwealth provides financial support to the PRCE through legislative appropriations.

Puerto Rico Government Investment Trust Fund (PRGITF) – PRGITF is governed by the Secretary of the Treasury of the Commonwealth. The GDB is its trustee, custodian, and administrator. PRGITF's main objective is to provide investment opportunities in a professionally managed money market portfolio by investing in high quality securities with minimal credit risk. Qualified investors include the Commonwealth's central government, its public corporations, instrumentalities and agencies, and the municipalities of Puerto Rico. In conformity with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools*, the

financial statements of the PRGITF are not included in the accompanying basic financial statements because the primary government and each component unit investor is already presenting as cash or investment their corresponding share of the assets of the PRGITF.

Puerto Rico Industrial Development Company (PRIDCO) – PRIDCO is governed by a seven member board comprising the Secretary of Economic Development and Commerce of the Commonwealth, who is the Chairman, the Secretary of the Treasury of the Commonwealth, the President of the GDB, the President of the Planning Board of Puerto Rico, and three members from the private sector appointed by the Governor with the advice and consent of the Senate. The private sector members are appointed for a period of four years. PRIDCO administers the Commonwealth sponsored economic development program by providing facilities, general assistance, and special incentive grants to manufacturing companies operating in Puerto Rico. PRIDCO has issued interim notes and revenue bonds to finance manufacturing plants and other facilities. Rentals derived from the leasing of specified facilities of PRIDCO are pledged for the payment of PRIDCO's revenue bonds. PRIDCO maintains debt that is paid with Commonwealth's appropriations. The Commonwealth generally provides financial support to PRIDCO through legislative appropriations and has the ability to impose its will on PRIDCO.

Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority (known as AFICA, its Spanish acronym) – AFICA is governed by a seven member board comprising of the Executive Director of PRIDCO, the President of the GDB, the Executive Director of Puerto Rico Infrastructure Financing Authority, the Executive Director of the Puerto Rico Tourism Company (PRTC), the President of the Environmental Quality Board, and two private citizens appointed by the Governor. AFICA is authorized to issue revenue bonds to finance industrial, tourist, environmental control, medical, and educational facilities in Puerto Rico and the United States of America for use by private companies, nonprofit entities, or governmental agencies. The bonds are payable solely from collections from such private companies, nonprofit entities, or governmental agencies, and do not constitute debt of the Commonwealth or any of its other component units. The Commonwealth has the ability to impose its will on AFICA.

Puerto Rico Land Administration (PRLA) – PRLA is governed by an eleven member board comprising the Secretary of Economic Development and Commerce of the Commonwealth, who serves as President, the President of the Planning Board of Puerto Rico, who serves as Vice-President, the Secretary of the Treasury of the Commonwealth, the Secretary of Agriculture of the Commonwealth, the Secretary of DTPW of the Commonwealth, the Secretary of Housing of the Commonwealth, the Executive Director of Puerto Rico Industrial Development Corporation and four members appointed by the Governor with the advice and consent of the Senate. The PRLA acquires parcels of land on behalf of government instrumentalities through negotiation or expropriation for future development or for reserve. The Commonwealth provides financial support to the PRLA through legislative appropriations.

Puerto Rico and Municipal Islands Maritime Transport Authority (PRMIMTA) – PRMIMTA is governed by a five member board comprising the Secretary of DTPW, who serves as President, the Executive Director of the Ports Authority, the Mayors of Vieques and Culebra, and one additional member appointed by the Governor. The operations of the PRMIMTA consist of administering and operating the maritime transportation services between San Juan, Fajardo, Vieques and Culebra. The

Commonwealth generally provides financial support to the PRMIMTA through legislative appropriations.

Puerto Rico Metropolitan Bus Authority (PRMBA) – PRMBA is governed by the Secretary of DTPW of the Commonwealth. The PRMBA provides bus transportation to passengers within the San Juan Metropolitan Area. The Commonwealth provides financial support to the PRMBA through the transfer of certain gasoline and diesel excise taxes collected by the Commonwealth.

Puerto Rico Municipal Finance Agency (PRMFA) – PRMFA is governed by a five member board comprising the President of the GDB, who is the Chairman, the Commissioner of Municipal Affairs, and three additional members appointed by the Governor, one of whom shall be either the mayor or chief financial officer of a municipality. The PRMFA was organized to create a capital market to assist the municipalities of Puerto Rico in financing their public improvement programs. The Commonwealth is required to cover any potential deficiency that may exist on the MFA reserve accounts established for debt service.

Puerto Rico Ports Authority (PRPA) – PRPA is governed by a five member board consisting of the Secretary of DTPW of the Commonwealth, who is the Chairman, the Secretary of Economic Development and Commerce of the Commonwealth, the Executive Director of the PRTC, the Executive Director of Puerto Rico Industrial Development Company and one private citizen appointed by the Governor with the consent of the Senate. The purpose of the PRPA is to administer all ports and aviation transportation facilities of the Commonwealth and to render other related services. The Commonwealth generally provides financial support to the PRPA through legislative appropriations.

Puerto Rico Public Broadcasting Corporation (PRPBC) – PRPBC is governed by an eleven member board of directors comprising the Secretary of the Department of Education of the Commonwealth, the President of the UPR, the Executive Director of the IPRC, and eight private citizens appointed by the Governor with the advice and consent of the Senate. At least three of these private citizens must have proven interest, knowledge, and experience in education, culture, art, science, or radio and television. The PRPBC was created for the purpose of integrating, developing, and operating the radio, television, and electronic communication facilities that belong to the Commonwealth. The Commonwealth provides financial support to the PRPBC through legislative appropriations.

Puerto Rico Public Private Partnerships Authority (PPPA) – PPPA is governed by a five member board of directors comprising the President of the GDB, the Secretary of the Treasury, the President of the Planning Board and two members appointed by the Governor, one member selected by the President of the Senate of Puerto Rico and another member, by the Speaker of the Puerto Rico House of Representatives. The PPPA is the only government entity authorized and responsible for implementing public policy on Public Private Partnerships established by Act No. 29 of June 8, 2009 and to determine the functions, services or facilities for which such Partnerships will be established. The Commonwealth has the ability to impose its will on the PPPA.

Puerto Rico School of Plastic Arts (PRSPA) – PRSPA is governed by a seven member board. Four members are appointed by the board of directors of the IPRC, representing the public educational and cultural interests. Board members may not be employees of the PRSPA. The remaining three

members are elected from among the members of the board of directors of the IPRC, one of whom will serve as president. The PRSPA was created to develop, promote, plan, and coordinate programs of study in higher education oriented to the plastic arts, teaching, artistic techniques, and to help students to develop humanistic values. The Commonwealth generally provides financial support to the PRSPA through legislative appropriations.

Puerto Rico Telephone Authority (PRTA) – PRTA is governed by a five member board comprising the President of the GDB and four members that are appointed by the board of directors of the GDB from among the GDB board members, all of which are appointed by the Governor. PRTA is the legal entity responsible to account for the equity interest in Telecommunications de Puerto Rico, Inc. The Commonwealth has the ability to impose its will on the PRTA.

Puerto Rico Tourism Company (PRTC) – PRTC is governed by a seven member board comprising of representatives of different tourist related sectors appointed by the Governor with the consent of the Senate. At least one member must represent internal tourism and two must not be residents of the metropolitan area. Its purpose is to promote the tourism industry of Puerto Rico. The Commonwealth generally provides financial support to the PRTC through legislative appropriations.

Puerto Rico Trade and Export Company (PRTEC) – PRTEC is governed by a nine member board comprising the Secretary of the Department of Economic Development and Commerce, who is the Chairman, the Executive Director of the Ports Authority, the Secretary of the Department of Agriculture, the President of the EDB, the Executive Director of PRIDCO, the Legal Division Director of the PRTEC, and three private citizens. The PRTEC has the responsibility to promote the highest efficiency in the services provided to the commercial sector, with emphasis on small and medium sized enterprises while promoting the export of products and services from Puerto Rico to other countries. The Commonwealth has the ability to impose its will on the PRTEC.

Solid Waste Authority (SWA) – SWA is governed by a government board appointed by the Secretary of the Department of Natural Resources, whereby, the Secretary and the Executive Director of SWA periodically meet. SWA provides alternatives for processing of solid waste and encourages recycling, reuse, and recovery of resources from waste. The Commonwealth provides financial support to SWA through legislative appropriations.

State Insurance Fund Corporation (SIFC) – SIFC is governed by a seven member board appointed by the Governor with the advice and consent of the Senate. The board comprises the Commissioner of Insurance of Puerto Rico, an officer from the Department of Labor and Human Resources of the Commonwealth, an officer from the Department of Health of the Commonwealth, a representative of the employers' interest, a representative of the employees' interest, and two members without any of these interests. One of these members is appointed by the Governor as president of the board for a period of six years. The three public officials are appointed for a period of five years, and the rest of the members for four, three, two, and one year, respectively. SIFC provides workers' compensation and disability insurance to public and private employees. The Commonwealth has access to SIFC's resources.

University of Puerto Rico Comprehensive Cancer Center (UPRCCC) – UPRCCC is governed by a nine member board comprising of four ex-officio members: the President of the University of Puerto Rico (the UPR), the Chancellor of Medical Sciences Campus of the UPR, the Secretary of the Department of Health of the Commonwealth, and the Dean of the UPR School of Medicine. The remaining five (5) members, who shall be appointed by the Governor with the approval of the Commonwealth Senate, are citizens of Puerto Rico who have shown commitment to the fight against cancer are as follows: two members from the investigative studies or cancer treatment community; one member with experience in management, finance, or business administration, or with previous experience managing hospitals or medical investigation clinics; one member who is a cancer patient; and one member of which will be a member of the “Liga Puertorriqueña Contra el Cancer”. The Commonwealth provides financial support to UPRCCC through legislative appropriations.

Complete financial statements of the discretely presented component units can be obtained directly by contacting their administrative offices:

Agricultural Enterprises Development Administration
P.O. Box 9200
Santurce, PR 00908-0200

Automobile Accidents Compensation Administration
P.O. Box 364847
San Juan, PR 00936-4847

Cardiovascular Center Corporation of Puerto Rico and the Caribbean
P.O. Box 366528
San Juan, PR 00936-6528

Company for the Integral Development of the “Península de Cantera”
P.O. Box 7187
Santurce, PR 00916-7187

Corporation for the "Caño Martín Peña" ENLACE Project
P.O. Box 41308
San Juan, PR 00940-1308

Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico
P.O. Box 362350
San Juan, PR 00936-2350

Corporation of Industries for the Blind and Mentally Retarded and Incapacitated Persons of Puerto Rico
P.O. Box 13382
San Juan, PR 00908

Culebra Conservation and Development Authority
P.O. Box 217
Culebra, PR 00775-0217

Economic Development Bank for Puerto Rico
P.O. Box 2134
San Juan, PR 00922-2134

Employment and Training Enterprises Corporation
P.O. Box 366505
San Juan, PR 00936-6505

Farm Insurance Corporation of Puerto Rico
P.O. Box 9200
Santurce, PR 00908

Fine Arts Center Corporation
P.O. Box 41287 – Minillas Station
San Juan, PR 00940-1287

Government Development Bank for Puerto Rico
P.O. Box 42001
San Juan, PR 00940-2001

Institute of Puerto Rican Culture
P.O. Box 9024184
San Juan, PR 00902-4184

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2013

Institutional Trust of the National Guard of Puerto Rico
P.O. Box 9023786
San Juan, PR, 00902-3786

Local Redevelopment Authority for Roosevelt Roads Puerto Rico
400 Calaf Street, PMB 456
San Juan, PR 00918-1314

Land Authority of Puerto Rico
P.O. Box 9745
Santurce, PR 00908-9745

Musical Arts Corporation
P.O. Box 41227
San Juan, PR 00940-1227

National Parks Company of Puerto Rico
P.O. Box 9022089
San Juan, PR 00902-2089

Port of the Americas Authority
P.O. Box 195534
San Juan, PR 00919-5534

Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives
P.O. Box 195449
San Juan, PR 00919-5449

Puerto Rico Aqueduct and Sewer Authority
P.O. Box 7066
San Juan, PR 00916-7066

Puerto Rico Conservatory of Music Corporation
951 Ponce de León Ave.
San Juan, PR 00907-3373

Puerto Rico Council on Education
P.O. Box 19900
San Juan, PR 00910-1900

Puerto Rico Convention Center District Authority
P.O. Box 19269,
San Juan, Puerto Rico, 00910-1269

Puerto Rico Electric Power Authority
P.O. Box 364267
San Juan, PR 00936-4267

Puerto Rico Government Investment Trust Fund
P.O. Box 42001, Millas Station
San Juan, Puerto Rico 00940-2001

Puerto Rico Health Insurance Administration
P.O. Box 195661
San Juan, PR 00919-5661

Puerto Rico Highways and Transportation Authority
P.O. Box 42007
San Juan, PR 00940-2007

Puerto Rico Industrial Development Company
P.O. Box 362350
San Juan, PR 00936-2350

Puerto Rico Land Administration
P.O. Box 363767
San Juan, PR 00936-3767

Puerto Rico Metropolitan Bus Authority
P.O. Box 195349
San Juan, PR 00919-5349

Puerto Rico and Municipal Islands Maritime Transport Authority
P.O. Box 4305
Puerto Real, PR 00740

Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority
P.O. Box 42001
San Juan, PR 00940-2001

Puerto Rico Municipal Finance Agency
P.O. Box 42001
San Juan, PR 00940-2001

Puerto Rico Ports Authority
P.O. Box 362829
San Juan, PR 00936-2829

(Continued)

Puerto Rico Public Broadcasting Corporation
P.O. Box 190909
San Juan, PR 00919-0909

Puerto Rico Public Private Partnerships Authority
P.O. Box 42001
San Juan, PR 00940-2001

Puerto Rico School of Plastic Arts
P.O. Box 9021112
San Juan, PR 00902-1112

Puerto Rico Telephone Authority
P.O. Box 42001
San Juan, PR 00940-2001

Puerto Rico Tourism Company
Tanca Street #500, Ochoa Building, 3rd Floor
Old San Juan, PR 00902-3960

Puerto Rico Trade and Export Company
P.O. Box 195009
San Juan, PR 00919-5009

Solid Waste Authority
P.O. Box 40285
San Juan, PR 00940-0285

State Insurance Fund Corporation
P.O. Box 365028
San Juan, PR 00936-5028

University of Puerto Rico
Jardín Botánico Sur
1187 Street Flamboyán
San Juan, PR 00916-1117

University of Puerto Rico Comprehensive
Cancer Center
PMB 711, 89 De Diego Ave., Suite 105
San Juan, PR 00927-6346

The financial statements of the discretely presented component units have a year end of June 30, 2013, except for the Puerto Rico Telephone Authority, which has a year end of December 31, 2012.

Fiduciary Funds

The three employee retirement systems described in the following paragraphs (the Retirement Systems) administer the pension funds and other postemployment healthcare benefits for the Commonwealth and its political subdivisions. These Retirement Systems are subject to legislative and executive controls, and their administrative expenses are subject to legislative budget controls. They meet the component units' criteria and are reported as blended component units in the fiduciary funds of the Commonwealth. They have been omitted from the government wide financial statements, as their resources are not available to fund operations of the Commonwealth. The Retirement Systems, as governmental retirement plans, are excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) – ERS is governed by an eleven-member board of trustees, which is composed of the Secretary of the Treasury of the Commonwealth, who is the President, the President of the GDB, the Commissioner of Municipal Affairs, the Director of the Office of Human Resources of the Commonwealth, three employees, and two retirees, who are appointed by the Governor. The other two members are the President of the Federation of Majors and the President of the Association of Majors. The Commonwealth reports the ERS as a cost sharing multiple employer pension plans. The ERS is a multiple employer defined benefit pension plan, which covers all regular employees of the Commonwealth and its instrumentalities and of certain municipalities and component units not covered by their own retirement systems. The ERS is administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration (the ERS and JRS Administration) that

also administers the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution (ERS MIPC). The ERS MIC is an unfunded, cost-sharing, multi-employer defined benefit other postemployment healthcare benefit plan provided by the Commonwealth to retired plan members.

Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS) – JRS is governed by the same board of trustees as the ERS. The JRS is a single employer defined benefit plan that covers all active judges or retired judges of the judiciary branch of the Commonwealth. The JRS is administered by the ERS and JRS Administration that also administers the Retirement System for the Judiciary of the Commonwealth of Puerto Rico Medical Insurance Plan Contribution (JRS MIPC), an unfunded, single-employer defined benefit other postemployment healthcare benefit plan provided by the Commonwealth to retired judges of the Judiciary Branch of the Commonwealth.

Puerto Rico System of Annuities and Pensions for Teachers (TRS) – TRS is governed by a nine member board comprising three ex-officio members, which are the Secretary of the Department of Education, the Secretary of the Treasury of the Commonwealth, the President of the GDB, and one member who is a representative of a teachers' organization designated by the Governor; three teachers appointed by the Governor, one of which represents currently certified teachers in active service, and two who represent retired teachers; one member who is a representative of the entity that represents the proper unit under Act No. 45 of February 25, 1998, as amended; and one additional member, as representative of the public interest, with knowledge of and experience in the administration and operation of financial systems, appointed by the Governor. The Commonwealth reports the TRS as a single employer pension plan. The TRS provides retirement benefits to all teachers of the Department of Education of the Commonwealth, all pensioned teachers, all teachers transferred to an administrative position in the Department of Education of the Commonwealth, and those who practice in private institutions accredited by the Department of Education of the Commonwealth who elect to become members. The TRS provides retirement, death, and disability benefits. The TRS is administered by the Teachers Retirement System (the TRS Administration) that also administers the Puerto Rico System of Annuities and Pensions for Teachers Medical Insurance Plan Contribution (TRS MIPC), an unfunded, cost-sharing, multi-employer defined benefit other postemployment healthcare benefit plan provided by the Commonwealth to retired teachers of the Department of Education of the Commonwealth and retired employees of the TRS Administration.

Complete financial statements of these component units can be obtained directly by contacting their respective administrative offices at:

Employees' Retirement System of the
Government of the Commonwealth of Puerto Rico
P.O. Box 42003 – Minillas Station
San Juan, PR 00940-2203

Retirement System for the Judiciary of the
Commonwealth of Puerto Rico
P.O. Box 42003 – Minillas Station
San Juan, PR 00940-2203

Puerto Rico System of Annuities and Pensions for
Teachers
P.O. Box 191879
San Juan, PR 00919-1879

(c) ***Component Units Audited Separately***

The basic financial statements of the Commonwealth include the financial statements of the following component units that were audited by other auditors:

Blended component units

Public Buildings Authority
Puerto Rico Infrastructure Financing Authority
Puerto Rico Maritime Shipping Authority
Puerto Rico Medical Services Administration
Special Communities Perpetual Trust
The Children’s Trust

Discretely presented component units

Agricultural Enterprises Development Administration
Automobile Accidents Compensation Administration
Cardiovascular Center Corporation of Puerto Rico and the Caribbean
Company for the Integral Development of the “Península de Cantera”
Corporation for the “Caño Martín Peña” ENLACE Project
Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico
Corporation of Industries for the Blind and Mentally Retarded and Incapacitated Persons of Puerto Rico
Culebra Conservation and Development Authority
Employment and Training Enterprises Corporation
Farm Insurance Corporation of Puerto Rico
Fine Arts Center Corporation
Institute of Puerto Rican Culture
Institutional Trust of the National Guard of Puerto Rico
Land Authority of Puerto Rico
Local Redevelopment Authority for Roosevelt Roads Puerto Rico
Musical Arts Corporation
National Parks Company of Puerto Rico
Port of the Americas Authority
Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives
Puerto Rico Aqueduct and Sewer Authority
Puerto Rico Conservatory of Music Corporation
Puerto Rico Convention Center District Authority
Puerto Rico Council on Education
Puerto Rico Electric Power Authority
Puerto Rico Health Insurance Administration
Puerto Rico Highways and Transportation Authority
Puerto Rico Industrial Development Company
Puerto Rico Industrial, Tourist, Educational, Medical and Environmental, Control Facilities Financing Authority
Puerto Rico Land Administration

Puerto Rico and Municipal Islands Maritime Transport Authority
Puerto Rico Metropolitan Bus Authority
Puerto Rico Municipal Finance Agency
Puerto Rico Ports Authority
Puerto Rico Public Broadcasting Corporation
Puerto Rico Public Private Partnerships Authority
Puerto Rico School of Plastic Arts
Puerto Rico Telephone Authority
Puerto Rico Trade and Export Company
Solid Waste Authority
State Insurance Fund Corporation
University of Puerto Rico
University of Puerto Rico Comprehensive Cancer Center

(d) ***Basis of Presentation***

Government-Wide Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information of all of the nonfiduciary activities of the Commonwealth and its component units. For the most part, the effect of interfund activity has been removed from these government wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business type activities, which rely to a significant extent on fees and charges for services. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable. The statement of net position presents the reporting entities' nonfiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the residual measure reported as net position. Net position is reported in three categories:

Net Investment in Capital Assets – This component of net position consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are directly attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at year end, the portion of the debt or deferred inflows of resources attributable to the unspent amount is not included in the calculation of this component of net position. Rather, that portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

Restricted Net Position – This component of net position consists of restricted assets and deferred outflows of resources reduced by liabilities and deferred inflows of resources. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Restricted assets result when constraints placed on those assets use are either, externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

When both restricted and unrestricted resources are available for use, generally, it is the Commonwealth's policy to use restricted resources first, then the unrestricted resources as they are needed.

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment, or component unit are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. The Commonwealth does not allocate general government (indirect) expenses to other functions. Program revenue includes charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, segment, or component unit. Program revenue also includes grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Revenues that are not classified as program revenues, including all taxes, are presented as general revenue. Resources that are dedicated internally are reported as general revenue rather than as program revenue.

Fund Financial Statements

The Commonwealth reports its financial position and results of operations in funds, which are considered separate accounting entities, including those component units which are required to be blended. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions. Major funds are determined using a predefined percentage of the assets, liabilities, revenue, or expenditures/expenses of either the fund category or the governmental and enterprise funds combined. The nonmajor funds are combined in a single column in the fund financial statements.

Governmental Funds

Governmental funds focus on the sources and uses of funds and provide information on near-term inflows, outflows and balances of available resources. The Commonwealth reports the following governmental funds:

- *General Fund* – The General Fund is the primary operating fund of the Commonwealth. It is used to account for and report all financial resources received and used for those services traditionally provided by a government, except those required to be accounted for and reported in another fund. Included are transactions for services such as general government, public safety, health, public housing and welfare, and education.

- *Debt Service Fund* – The debt service fund accounts for and reports financial resources that are restricted, committed or assigned to expenditure for general long-term bonds' principal, interest, and related costs other than bonds payable from the operations of proprietary fund types, pension trust funds, and discretely presented component units. Long-term debt and interest due on July 1

of the following fiscal year are accounted for as a fund liability if resources are available as of June 30 for its payment.

- *COFINA Special Revenue Fund* – The special revenue fund of the Puerto Rico Sales Tax Financing Corporation (COFINA) is used to account for and report all financial resources of COFINA, except those required to be accounted for and reported in the COFINA Debt Service fund.

- *COFINA Debt Service Fund* – The debt service fund of the Puerto Rico Sales Tax Financing Corporation is used to account for the Commonwealth sales tax revenue being deposited in the Dedicated Sales Tax Fund for the payment of interest and principal on long-term obligations.

- *Other Governmental Funds* – The Commonwealth reports the following blended component units within the nonmajor governmental funds: Public Buildings Authority, The Children's Trust, Puerto Rico Infrastructure Financing Authority, Special Communities Perpetual Trust and the Puerto Rico Maritime Shipping Authority. If a component unit is blended, the governmental fund types of the component unit should be blended with those of the primary government by including them in the appropriate combining statements of the primary government. Although the primary government's General Fund is usually the main operating fund of the reporting entity, the General Fund of a blended component unit should be reported as a special revenue fund. Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

The capital projects fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. These capital expenditures may be for the primary government directly or for discrete component units and outside organizations and governments such as the municipalities of the Commonwealth and other applicable entities. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the classification of fund balance is based on the extent to which the Commonwealth is bound to observe constraints imposed upon the use of resources in the governmental funds. The classifications are as follows:

- *Nonspendable* – Amounts that are not in a spendable form or are legally or contractually required to be maintained intact.

- *Restricted* – Amounts that are legally restricted by outside parties, constitutional provisions or enabling legislation for a specific purpose.

- *Committed* – Amounts that are constrained for specific purposes that are internally imposed by the government's formal action at the highest level of decision-making authority and do not lapse at year-end. The highest level of decision authority for the Commonwealth is the

Legislature and the Governor, and the formal action is the passage of a law specifying the purposes for which amounts can be used.

- *Assigned* – includes fund balance amounts that are constrained by the Commonwealth and are intended to be used for specific purposes that are neither considered restricted or committed. The Director of the Office of Management and Budget of the Commonwealth is authorized to assign an amount for a specific purpose through the approval of budget certificates as required by statute.
- *Unassigned* – is the residual classification for the General Fund. In a governmental fund other than the General Fund, a negative amount indicates that the expenditures incurred for a specific purpose exceeded the amounts in the fund that are restricted, committed and assigned to that purpose.

The Commonwealth uses restricted amounts first when both restricted and unrestricted fund balances are available, unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, unless required by law or agreement, the Commonwealth would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Commonwealth does not have a formal minimum fund balance policy.

Proprietary Funds

These funds account for those activities, which are financed and operated in a manner similar to private business enterprises. Management intends to recover, primarily through user charges, the cost of providing goods or services to the general public.

The Commonwealth reports the following major proprietary funds:

- *Unemployment Insurance Fund* – This fund accounts for amounts requisitioned for the Puerto Rico Unemployment Insurance Trust Fund held by the U.S. Treasury for payment of unemployment benefits and charges made to individual employers.
- *Lotteries Fund* – This fund accounts for the assets and operations of two lottery systems administered by the Commonwealth.
- *Puerto Rico Medical Services Administration* – This fund, a blended component unit, accounts for the operations of the centralized health services, provided in support of hospitals and other functions offered by the member institutions and consumers of the complex known as Puerto Rico Medical Center.
- *Puerto Rico Water Pollution Control Revolving Fund* – This fund, administered by the Puerto Rico Environmental Quality Board (EQB), is authorized to enter into operating agreements and capitalization grant agreements with the U.S. Environmental Protection Agency (EPA), mostly for water infrastructure projects, under a joint cooperation agreement between the EQB, PRIFA, PRASA and the GDB, where each entity has agreed to assume their corresponding responsibilities.

The Commonwealth reports the following nonmajor proprietary funds: Disability Insurance, Drivers' Insurance, the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund and the Governing Board of 9-1-1 Services.

Fiduciary Funds

Fiduciary funds are used to account for assets held by the Commonwealth in a trustee capacity, or as an agent for individuals, private organizations, and other governmental units. The following are the Commonwealth's fiduciary funds:

- *Pension (and other employee benefit) Trust Funds* – These are used to account for the assets, liabilities, and net assets available for pension benefits and postemployment healthcare benefits held in trust for the public employees' retirement systems.
- *Agency Funds* – These are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations.

(e) ***Measurement Focus and Basis of Accounting***

Government Wide Financial Statements – The government wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenues from property tax are recognized in the fiscal year for which the taxes are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. Principal revenue sources considered susceptible to accrual include tax revenue, net of estimated overpayments (refunds) and amounts considered not collectible, which are recorded as taxpayers earn income (income taxes), as sales are made (consumption, sales and use taxes) and as cash is received (miscellaneous taxes). For this purpose, the Commonwealth considers income tax revenue to be available if collected within 120 days after the end of the current fiscal year end, property tax revenue if collected within 90 days after the end of the current fiscal year (see note 1(j) for further description for the use of up to 90 days), and consumption sales and use tax if collected within 30 days after the end of the current fiscal year. In applying the susceptible to accrual concept to federal grants, there are essentially two types of revenue. For the majority of grants, revenue is recognized when all applicable eligibility requirements are met (typically when related expenditures are incurred) and the resources are available. Resources received before the eligibility requirements are met are deferred.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include the following:

- Employees' vested annual vacation and sick leave are recorded as expenditures when matured. The unmatured amount of accumulated annual vacation and sick leave unpaid at June 30, 2013 is reported only in the government wide financial statements.

- Interest and principal on general long-term obligations and interest on interest rate swap agreements are recorded when due, except for interest and principal due on July 1 of the following fiscal year, if resources are available for its payment as of June 30.

- Debt service expenditures, federal funds' cost disallowances, other long-term obligations, and amounts subject to judgments under litigation are recorded in the governmental funds only when payment is due; and in the case of judgments under litigation, when a settlement has been made and awaiting payment. Until these criteria are met, these liabilities have been recorded only in the government wide financial statements.

A summary reconciliation of the difference between total fund balances (deficit) as reflected in the governmental funds balance sheet and net position of governmental activities as shown on the government-wide statement of net position is presented in an accompanying reconciliation of the balance sheet of governmental funds to the statement of net position.

A summary reconciliation of the difference between net change in fund balances (deficit) as reflected in the governmental funds statement of revenues, expenditure, and changes in fund balances (deficit) and change in net position in the statement of activities of the government-wide financial statements is presented in the accompanying reconciliation of revenues, expenditures, and changes in fund balances (deficit) of governmental funds to the statement of activities.

Proprietary Funds, Fiduciary Funds, and Discretely Presented Component Units Financial Statements – The financial statements of the proprietary funds, fiduciary funds, and discretely presented component units are reported using the economic measurement focus and the accrual basis of accounting, similar to the government-wide financial statements described above.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses. The major operating revenues of the Commonwealth's enterprise funds are as follows:

- *Unemployment Insurance Fund* – Amounts requisitioned for the Puerto Rico Unemployment Insurance Trust Fund held by the U.S. Treasury for payment of unemployment benefits and charges made to individual employers.

- *Lotteries Fund* – Amounts collected from the sale of traditional lottery tickets and electronic lotto games.

- *Puerto Rico Medical Services Administration* – Amounts charged and collected from private citizens, member institutions and municipalities for patient services provided.

- *Puerto Rico Water Pollution Control Revolving Fund* – Interest income from the granting of infrastructure and construction loans.

(f) ***Cash and Short Term Investments***

The Commonwealth follows the practice of pooling cash. The balance in the pooled cash accounts is available to meet current operating requirements, and any excess is invested in various interest bearing accounts with the Government Development Bank for Puerto Rico and with the Puerto Rico Government Investment Trust Fund (PRGITF). Cash and cash equivalents include investments with original maturities of 90 days or less from the date of acquisition.

The Commissioner of Financial Institutions requires that private financial institutions deposit collateral securities to secure the deposits of the Commonwealth and all other governmental entities in each of these institutions. The amount of collateral securities to be pledged for the security of public deposits shall be established by the rules and regulations promulgated by the Commissioner of Financial Institutions.

The Puerto Rico Unemployment Insurance Trust Fund is maintained to account for the collection of unemployment insurance contributions from employers and the payment of unemployment benefits to eligible claimants. As required by federal law, all resources not necessary for current benefit payments are placed on deposit with the U.S. Treasury. Interest earned over such deposit is retained in the fund.

Cash and short term investments and cash equivalents of the component units and certain funds of the primary government are maintained in separate bank accounts, from those of the rest of the primary government, in their own names.

(g) ***Securities Purchased under Agreements to Resell***

Certain component units of the Commonwealth enter into purchases of securities with simultaneous agreements to resell the same securities (repurchase agreements). The amounts advanced under these agreements generally represent short–term loans and are reflected as an asset. The securities underlying these agreements mainly consist of U.S. government obligations, mortgage-backed securities, and interest bearing deposits with other banks. Repurchase agreements are authorized transactions under their respective enabling legislation and/or authorized by the GDB.

(h) ***Securities Lending Transactions***

Certain component units and pension trust funds of the Commonwealth enter into securities lending transactions in which governmental entities (lenders) transfer their securities to broker dealers and other entities (borrowers) for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Cash received as collateral on securities lending transactions and investments made with that cash are reflected as investments. Securities received as collateral are reported as investments if the component unit has the ability to pledge or sell them without a borrower default. Liabilities resulting from these securities lending transactions also are reported in the statement of net position. Securities lending transactions collateralized by letters of credit or by securities that the component unit does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities in the statement of net position.

(i) ***Investments and Investment Contracts***

Investments and investment contracts mainly include U.S. government and agencies' obligations, mortgage-backed securities, repurchase agreements, commercial paper, local government obligations, investment contracts, and corporate debt and equity obligations. Investments and investment contracts are carried at fair value, except for money market investments and participating investment contracts with a remaining maturity at the time of purchase of one year or less and nonparticipating investment contracts (guaranteed investment contracts), which are carried at cost; and investment positions in 2a7-like external investment pools, which are carried at the pool's share price. Fair value is determined based on quoted market prices and quotations received from independent broker/dealers or pricing service organizations. Investment income, including changes in the fair value of investments, is presented as investment earnings in the statement of activities, the statement of revenues, expenditures, and changes in fund balances (deficit) – governmental funds, and the statement of revenues, expenses, and changes in fund net position (deficit) – proprietary funds. Realized gains and losses from the sale of investments and unrealized changes in the fair value of outstanding investments are included in the change in the fair value of investments.

The PRGITF is considered a 2a7-like external investment pool and, as such, reports its investments at amortized cost.

(j) ***Accounts Receivable, Loans, and General Revenue***

Tax receivables in the General Fund include predominantly amounts owed by taxpayers for individual and corporate income taxes, net of estimated uncollectible amounts. Income tax receivables are recognized as revenue when they become measurable and available based on actual collections during the 120 days following the fiscal year end related to tax returns due before year end. Taxes receivable also includes amounts owed by taxpayers on income earned in periods prior to June 30, 2013, estimated to be collectible but not currently available, and thus are reported as deferred revenue in the General Fund. Unemployment, disability, and driver's insurance receivables in the enterprise funds are stated net of estimated allowances for uncollectible accounts.

The sales and use tax receivable is recognized as revenue when it becomes measurable and available based on actual collections during the 30 days following the fiscal year-end related to sales and use tax returns due before year-end.

Excise tax receivable is recognized as revenue when it becomes measurable and available based on actual collections during the 30 days following the fiscal year-end related to transactions that occurred before year-end. Act No. 154 of October 25, 2010 imposes a new temporary excise tax on the acquisition of certain personal property manufactured or produced in whole or in part in Puerto Rico and on the acquisition of certain manufacturing services carried out in Puerto Rico by nonresident alien individuals, foreign corporations and foreign partnerships. Act No. 154 applies to income realized and acquisitions occurring after December 31, 2010. Act No. 154 provides that, in certain circumstances, taxpayers will be deemed to be engaged in trade or business in Puerto Rico and taxable in Puerto Rico with respect to a portion of taxpayer's income where the taxpayers engage in significant transactions with other persons that are members of the same controlled group. Where a person engages in significant transactions with a member of the same controlled group that has gross receipts of seventy-five million dollars or more in any of the last three years and that

manufactures or produces goods in Puerto Rico, or provides services in connection with the manufacture or production of goods in Puerto Rico, the person will not be subject to income tax, but will instead be subject to the excise tax in lieu of any income tax. The excise tax will apply until the year 2017. The excise tax is based on the value of the personal property or the services acquired, and was 4% for calendar year 2011, 3.75% in 2012 and 2.75% for portions of 2013 until February 28, 2013. On February 28, 2013, Act No. 2 was enacted raising the then prevailing excise tax rate of 2.75% to 4%, effective immediately, and maintaining such rate fixed at 4% until the year 2017.

Real property tax payments, under Act No. 7 described below, for the fiscal year ended June 30, 2013 were due September 1, 2012 and March 1, 2013. For purposes of the governmental fund financial statements, property tax revenue represents payments received during the year and payments received (against the current fiscal year and prior years' levies) within the first 90 days of the following fiscal year reduced by tax refunds for the fund financial statements. Additionally, the government wide financial statements recognize real property tax revenues (net of refunds) which are not available to the governmental funds in the fiscal year for which the taxes are levied. Act No. 7 of March 9, 2009, as amended, imposed a real property tax, in addition to the one already established for the municipalities of the Commonwealth through the Municipal Revenue Collection Center (CRIM), on residential and commercial real properties with appraised values in excess of approximately $210,000. This tax was applicable during fiscal years 2010 through 2012 and amounted to 0.591% of such properties' appraised value as determined by the CRIM. Act No. 1 of January 31, 2011 eliminated this additional real property tax commencing with the quarter ended June 30, 2011. Collections on this tax were still being received during fiscal 2013, as a result of delinquent taxpayers bringing their accounts current or taking advantages of amnesty programs offered by the Department of the Treasury. The Commonwealth applies a 90-day availability period, rather than the traditional 60-days period after year-end, in order to cover a period in which most tax extension payments are made. This has been applied consistently over the years.

Accounts receivable are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables primarily represent amounts owed to the Commonwealth for reimbursement of expenditures incurred pursuant to federally funded programs. Intergovernmental receivables also include taxes that the CRIM, is required to remit to the Commonwealth to be used by the Commonwealth's debt service fund for payment of debt service on general obligations of the Commonwealth. The amount to be remitted is based on the special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation, which is levied by the CRIM.

The accounts receivable from nongovernmental customers of the component units are net of estimated uncollectible amounts. These receivables arise primarily from service charges to users. Accounts receivable from the primary government and other component units that arise from service charges although deemed fully collectible, are evaluated for collectability.

Loans of the General Fund are net of estimated uncollectible amounts. These receivables arise from amounts owed by public corporations and municipalities for public insurance and rent paid by the General Fund on their behalf.

The loans of the pension trust funds do not have allowances for uncollectible amounts since such

loans are secured by mortgage deeds, plan members' contributions, and any unrestricted amounts remaining in escrow. Loans of the component units consist predominantly of loans to the primary government, other component units, and municipalities, and do not have allowances for uncollectible accounts as those are deemed fully collectible. The remaining loans of the component units are to small and medium businesses, agricultural, and low income housing loans from nongovernmental customers, and are presented net of estimated losses on such portfolios.

(k) ***Inventories***

Generally, inventories are valued at cost and predominantly on the first in, first out basis. Governmental fund inventories are recorded as expenditures when purchased rather than capitalized as an asset. Only significant amounts of inventory at the end of the year are capitalized in the governmental funds. However, inventories are always capitalized in the statement of net position of governmental activities.

(l) ***Restricted Assets***

Funds set aside for the payment and guarantee of notes and interest payable and for other specified purposes are classified as restricted assets since their use is limited for this purpose by applicable agreements or required by law. Restricted assets in the proprietary funds mainly include amounts set aside for the payment of insurance benefits.

(m) ***Real Estate Held for Sale***

Real estate held for sale is carried at the lower of fair value or cost, which is established by a third-party professional assessment or based upon an appraisal, minus estimated costs to sell. Subsequent declines in the value of real estate available for sale are charged to expenditure/expense.

(n) ***Capital Assets***

Capital assets include land, buildings, building improvements, equipment (including software), vehicles, construction in process, and infrastructure assets, and are reported in the applicable governmental, business type activities, and component unit columns in the government wide financial statements and in the proprietary fund financial statements. The Commonwealth's primary government defines capital assets as assets that (i) have an initial, individual cost of $25,000 or more at the date of acquisition; and (ii) have a useful life of more than one year. Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available.

Donated capital assets are recorded at fair value at the time of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs are capitalized during the construction period only for business type activities and most component units. The costs of normal maintenance and repairs that do not add value to the assets or materially extend asset lives are not capitalized.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government wide financial statements, as well as the proprietary funds and component units' financial statements.

Capital assets of the primary government are depreciated on the straight line method over the assets' estimated useful life. There is no depreciation recorded for land and construction in progress. The estimated useful life of capital assets is as follows:

	Years
Buildings and building improvements	20 – 50
Equipment, furniture, fixtures, vehicles and software	5 – 15
Infrastructure	50

The capital assets of the component units are recorded in accordance with the applicable standards of the component units and under their own individual capitalization thresholds, which includes capitalization of interest. Depreciation has been recorded when required by these standards based on the types of assets, use and estimated useful lives of the respective assets, and on the nature of each of the component unit's operations.

The estimated useful lives of capital assets reported by the component units are as follows:

	Years
Buildings and building improvements	3 – 50
Equipment, furniture, fixtures, vehicles and software	3 – 20
Intangibles, other than software	3 – 5
Infrastructure	10 – 50

In the case of capital assets under service concession arrangements pursuant to GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (mostly attributed to Puerto Rico Ports Authority and Puerto Rico Highways and Transportation Authority), these are maintained on their books and also stated at cost or at estimated historical cost. Construction in progress made by the third party operators under these service concession arrangements is not recorded by the aforementioned component units while such construction is still in progress and not ready for use and operation; at which time such constructed assets and improvements will be recognized at their corresponding fair value. These capital assets are not being depreciated since the closing date of their respective service concession arrangements because such agreements require the third party operators to return the related facilities to these component units in its original or enhanced condition. Such capital assets continue to apply existing capital asset guidance, including depreciation through the closing date of the respective service concession arrangements. Under these service concession arrangements, the aforementioned component units have received from the third party operator either an upfront compensation fee or capital assets (or the commitment to construct them under the agreement) or both. These resources, net of any contractual obligation from the component units, are considered a deferred inflow of resources, which is recognized into revenue under the straight-line method over the term of the respective agreements.

The Commonwealth follows the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, and amendment to GASB No. 34.* This statement establishes guidance for accounting and reporting for the impairment of capital assets and for insurance recoveries.

(o) ***Tax Refunds Payable***

During the calendar year, the Commonwealth collects individual income taxes through withholdings and payments from taxpayers. At June 30, the Commonwealth estimates the amount owed to taxpayers for overpayments during the first half of the calendar year. These estimated amounts and the actual tax refunds claimed for prior years but not paid at year end are recorded as tax refunds payable and as a reduction of tax revenue.

(p) ***Deferred Revenue***

Deferred revenue at the governmental fund level arises when potential revenue does not meet the "available" criteria for revenue recognition in the current period. Deferred revenue also arises when resources are received before the Commonwealth has a legal claim to them, as when grant moneys are received prior to incurring the qualifying expenditures. In subsequent periods, when the revenue recognition criteria is met, or when the Commonwealth has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet, and the revenue is recognized. Deferred revenue at the government wide and proprietary fund levels arises only when the Commonwealth receives resources before it has a legal claim to them.

(q) ***Long-term Debt***

The liabilities reported in the government wide financial statements include Commonwealth's general obligation bonds and long-term notes, obligations under lease/purchase agreements, and long-term liabilities including vacation, sick leave, long-term liabilities to other governmental entities, net pension obligation, legal claims, and noncurrent federal fund cost disallowances related to expenditures of federal grants. Long-term obligations financed by proprietary fund types and component units are recorded as liabilities in those funds and in the discretely presented component units' column.

In the government wide financial statements, premiums, discounts, and issuance costs on long-term debt and other long-term obligations are presented in the columns for governmental and business type activities. The same is presented in the proprietary fund financial statements. Bond and note premiums and discounts are deferred and amortized over the life of the debt under a method that approximate the effective interest method. Bonds and notes payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and are amortized over the term of the related debt on a straight-line basis. In the governmental fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

The difference between reacquisition price and the net carrying amount of the old debt in a refunding transaction is deferred and amortized as a component of interest over the remaining life of the old debt, or the life of the new debt, whichever is shorter, using a stated interest method. On the statement of net position, this deferred amount is reported as a deduction from or as an addition to, the new debt liability.

(r) ***Derivative Instruments***

The Commonwealth accounts for derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Derivative instruments such as interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts are entered into by governments as investments; as hedges of identified financial risks associated with assets or liabilities, or expected transactions (i.e., hedgeable items); to lower the costs of borrowings; to effectively fix cash flows or synthetically fix prices; or to offset the changes in fair value of hedgeable items. Certain derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, are reported at fair value in the government-wide financial statements. The changes in fair value of hedging derivative instruments are reported as deferred inflows or deferred outflows of resources. The changes in fair value of investment derivative instruments (which include ineffective hedging derivative instruments) are reported as part of investment revenue in the current reporting period. Effectiveness is determined by considering whether the changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item. See note 20 for disclosure information relating to hedging and investment derivative instruments.

(s) ***Accounting for Pension Costs***

The Commonwealth accounts for pension costs under the provisions of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers, as amended* by GASB Statement No. 50. Under GASB Statement No. 27, annual pension cost measured on the accrual basis of accounting is equal to the employer's annual required contributions (ARC) to the plan, calculated in accordance with certain parameters, unless the employer has a net pension obligation for past under or over contributions. A pension liability or asset is reported equal to the cumulative difference between annual required contributions and the statutorily required contributions.

For the purpose of applying the requirements of GASB Statement No. 27, as amended by GASB Statement No. 50, *Pension Disclosures*, the Commonwealth's financial reporting entity is considered to be a sponsor of three defined benefit pension plans: JRS, TRS and ERS. This is because substantially all the participants in the three pension trust funds are part of the financial reporting entity of the Commonwealth. For the purpose of the basic financial statements, and as disclosed in note 17, the Commonwealth's annual pension cost, measured on the accrual basis of accounting, for the year ended June 30, 2013 amounted to approximately $2.8 billion. However, the statutory contributions made by the sponsors of the three defined benefit plans amounted to approximately $836.4 million. The excess of the annual required contribution over the statutorily required contributions of approximately $1.9 billion increased the net pension obligation at June 30, 2013 to approximately $13.1 billion. This amount is presented in the statement of net position of the governmental activities as of June 30, 2013, analogous to the accounting of a single-employer retirement plan.

For purposes of the stand-alone financial statements of each of the blended and discretely presented component units, the entities accounted for pension costs from the standpoint of a participant in a multiple employer cost sharing plan. Accordingly, pension costs recognized are equal to the

statutorily or contractually required contributions, with a liability recorded for any unpaid required contributions. The basis of accounting used by the component units was either modified accrual basis or accrual basis, depending upon individual fund structure and type of entity. Most component units did not have pension related assets or liabilities because they have contributed the statutorily required contributions.

(t) ***Other Postemployment Benefits***

In addition to the pension benefits described in note 17, the Commonwealth provides other retirement benefits, such as summer and Christmas bonus, and postemployment healthcare benefits (OPEB) for its retired employees in accordance with local law. Substantially, all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth.

The Christmas bonus and the summer bonus benefits are provided by the Commonwealth statutes. The Christmas bonus and the summer bonus paid by the Commonwealth to the retired employees during the year ended June 30, 2013 was $600 per retiree and the total amount was approximately $98.5 million. These benefits are recorded as expenditures when paid in the General Fund.

Postemployment healthcare benefits are provided through insurance companies whose premiums are paid by the retiree with the Commonwealth providing a matching share of not more than $100 per month for each retiree.

OPEB are measured and disclosed using the accrual basis of accounting. Annual postemployment benefits cost should equal the annual required contribution to the plans, calculated in accordance with certain parameters.

(u) ***Compensated Absences***

The vacation policy of the Commonwealth generally provides for the accumulation of 2.5 days per month, except for the teachers who accrue 4 days per month. Vacation time accumulated is fully vested to the employees from the first day of work up to a maximum of 60 days. Employees accumulate sick leave generally at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated unpaid vacation leave at the current rate regardless of years of service; and for all accumulated unpaid sick if the employee has at least 10 years of service with the Commonwealth. The liability for compensated absences reported in the government-wide and proprietary fund financial statements has been calculated using the vesting method, in which leave amounts for both, employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination, are included. The liability has been calculated based on the employees' current salary level and includes salary related costs (e.g., social security and medicare tax). The governmental fund financial statements record expenditures when employees are paid for leave or the balance due is accrued upon the employee's separation from employment. Compensated absence accumulation policies for the blended component units and discretely presented component units vary from entity to entity based on negotiated agreements and other factors agreed upon between the management of these entities and their employees.

The Public Service Personnel Law requires certain component units and the primary government of the Commonwealth to annually pay the employees the accumulated vacation and sick leave earned in excess of the limits mentioned above. As a result of Act No.66 of June 17, 2014, some of these excess accumulations are no longer going to be payable to the employers (see note 2 for further discussion).

(v) ***Termination Benefits***

The Commonwealth accounts for termination benefits in accordance with GASB Statement No. 47, *Accounting for Termination Benefits*. Pursuant to the provisions of GASB Statement No. 47, in financial statements prepared on the accrual basis of accounting, employers should recognize a liability and expense for voluntary termination benefits (for example, early retirement incentives) when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination benefits (for example, severance benefits) should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated. In financial statements prepared on the modified accrual basis of accounting, liabilities and expenditures for termination benefits should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources.

(w) ***Encumbrances***

Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures are recorded to reflect the use of the applicable spending appropriations, is used by the General Fund during the fiscal year to control expenditures. The cost of those goods received and services rendered on or before June 30 are recognized as expenditures. The unencumbered balance of any appropriation of the General Fund at the end of the fiscal year lapses immediately. Appropriations, other than in the General Fund, are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

(x) ***Interfund and Intraentity Transactions***

The Commonwealth has the following types of transactions among funds:

Interfund Transfer – Legally required transfers are reported when incurred as transfer in by the recipient fund and as transfer out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. However, these advances, transfers, and related amounts receivable and payable are considered internal balances and activities that have been eliminated in the government wide financial statements.

Intraentity Transactions – There are two types of intraentity transactions: First, the flow of resources between the primary government and its component units, and among the component units. This flow of resources and the related outstanding balances are reported as if they were external transactions. However, flow of resources between the primary government and blended component units are classified as interfund activity, as described above. Second, the intraentity balances between

the primary government and discretely presented component units that are tantamount to long-term debt financing. The primary government's liability is reported in the statement of net position, the proceeds in the primary government's funds, and the asset in the discretely presented component units' statement of net position.

(y) ***Lottery Revenue and Prizes***

The revenue, expenses, and prizes awarded by the Lottery of Puerto Rico and the Additional Lottery System, reported within the lotteries enterprise fund, are recognized as drawings are held. Moneys collected prior to June 30 for tickets related to drawings to be conducted subsequent to June 30 are reported as deferred revenue. Unpaid prizes awarded as of June 30 are reported as a fund liability. Unclaimed prizes expire after six months and are transferred to the General Fund.

(z) ***Risk Management***

The Commonwealth purchases commercial insurance covering casualty, theft, tort claims, and other losses for the primary government, most component units, and the municipalities. The Commonwealth is reimbursed for premium payments made on behalf of the component units and the municipalities. The current insurance policies have not been canceled or terminated. For workers' compensation, the Commonwealth has a discretely presented component unit, the SIFC, which provides workers' compensation to both public and private employees. The Commonwealth's blended component units are responsible for assuring that its property is properly insured. Annually, these blended component units compile the information of all property owned and its respective replacement value and purchases its property and casualty insurance policies. Insurance coverage for fiscal year 2013 remained similar to those of prior years. In the last three years, the Commonwealth's or the component units' insurance settlements have not exceeded the amount of coverage.

Certain discrete and blended component units combine commercial insurance with internal self-insurance funds covering specific risks related to their specialized operations. The most significant self insurance funds reside at the discrete component unit's level, and are described in detail in note 15.

(aa) ***Tobacco Settlement***

The Commonwealth follows GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issue*, as amended by GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, (the TB), which provides accounting guidance for entities created to obtain the rights to all or a portion of future tobacco settlement resources and for the governments that create such entities.

The TB indicates that the entity created to obtain the rights, which is called the Tobacco Settlement Authority (TSA), should be considered a component unit of the government that created it and the component unit should be blended. The TB also states that the government receiving the payments from the tobacco companies under the agreement, which are called settling governments, should recognize a receivable and revenue for tobacco settlement resources when an event occurs. The event that results in the recognition of an asset and revenue by the settling government is the domestic shipment of cigarettes. The TB indicates that accruals should be made by the settling government

and TSAs for estimated shipments from January 1 to their respective fiscal year ends, since the annual payments are based on a calendar year. However, under the modified accrual basis of accounting at the fund level, revenue should be recognized only to the extent that resources are available.

(bb) ***Use of Estimates***

The preparation of the basic financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(cc) ***New Accounting Standards Adopted***

The following new accounting standards were adopted by the Commonwealth effective July 1, 2012:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This Statement improves financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which: (i) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a facility) in exchange for significant consideration; and (ii) the operator collects and is compensated by fees from third parties. Within the Commonwealth's reporting entity, SCAs are normally entered into at the component unit level rather than by the primary government. The most significant SCAs within the Commonwealth reside at the Puerto Rico Highways and Transportation Authority and Puerto Rico Ports Authority. Refer to note 16 for further information on these SCAs.

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The most significant effects of the amendments are to: 1) increase the emphasis on financial relationships by raising the bar for inclusion; 2) refocus and clarify the requirements to blend certain component units, and 3) improve the recognition of ownership interests (joint ventures, component units, investments). Pursuant to the adoption of this Statement, component units previously presented as discrete are now required to be blended. These component units are: Puerto Rico Infrastructure Financing Authority, Puerto Rico Medical Services Administration and the Special Communities Perpetual Trust.

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30,

1989, which does not conflict with or contradict GASB pronouncements: (i) FASB Statements and Interpretations; (ii) Accounting Principles Board Opinions; and (iii) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. Also, and most importantly, this Statement eliminates the former election option provided in paragraph 7 of Statement No. 20 for enterprise funds and business-types activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. In other words, the enterprise funds and business type activities within the Commonwealth's reporting entity can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including Statement No.62. The adoption of this statement had no significant impact on the basic financial statements of the Commonwealth.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provided financial reporting guidance for deferred outflows of resources, which is a consumption of net assets by the government that is applicable to a future reporting period and deferred inflows of resources which is an acquisition of net assets by the government that is applicable to a future reporting period. GASB Statement No. 63 also amended the net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. This Statement also amended the reporting of the "net investment in capital assets" component of net position. This component consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are now required to be included in this component of net position. The principal impact on the Commonwealth from the adoption of this Statement for fiscal year 2013 was the renaming of net assets as net position; and presenting in separate sections of the statement of net position, the deferred inflows of resources resulting from the SCAs pursuant GASB Statement No. 60, and as deferred outflows of resources resulting from the changes in fair value of hedging derivative instruments pursuant GASB Statement No. 53.

(dd) ***Future Accounting Pronouncements***

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities, or viceversa. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in

financial statement presentations. Although the Commonwealth is still in the process of analyzing the exact impact of this Statement, most of the impact might be of a reclassification nature remaining within the statement of net position; except for its existing deferred debt issue costs of approximately $359 million in governmental activities and approximately $257 million in component units at June 30, 2013, which will require elimination against beginning net position upon adoption on July 1, 2013; and prospectively, new debt issue costs on bonds or debt issuance will require immediate expensing.

- GASB Statement No. 66, *Technical Corrections-2012*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the General Fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The Commonwealth is in the process of analyzing the effects of this Statement, but no significant impact is expected upon adoption on July 1, 2013.

- GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement, and to defined contribution

plans that provide postemployment benefits other than pensions. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. The major fundamental change, among others related to the application and determination of certain measurement assumptions in valuing pension plans, is switching from the existing "funding-based" accounting model, where currently the Annual Required Contribution (ARC) is compared to the actual payments made and that difference determines the Net Pension Obligation; to an "accrual basis" model similar to current FASB standards, where the Total Pension Obligation (Actuarially determined) is compared to the Net Plan Position (or assets) and the difference represents the Net Pension Liability. This particular Statement will be applicable to the three Retirement Systems of the Commonwealth, not to the rest of the Commonwealth's agencies or any of the Commonwealth's component units. The impact of this Statement will be establishing its new net pension liability for the Commonwealth to an amount resembling the existing actuarial deficiency in the aforementioned Retirement Systems which at June 30, 2013 amounted to approximately $34 billion.

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27.* The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. This Statement will bring the effect of Statement 67 summarized in the previous paragraph, into the accounting records of the individual agencies, component units and municipalities, whose employees participate in the Retirement Systems.

  The primary government of the Commonwealth, as well as its component units and the municipalities, are considered "cost-sharing" employers of the Retirement Systems; therefore, they would report its allocated share of the Commonwealth's resulting Net Pension Liability from Statement 67 as follows:

  - ✓ Based on the their respective individual proportion to the collective net pension liability of all the governments participating

  - ✓ The proportion should be consistent with the method used to assess contributions (percentage of payroll). The use of their respective long term expected contribution effort to Retirement Systems divided by those of all governments in the plan, is encouraged.

  This Statement is not effective until fiscal year 2015. The Commonwealth and the Retirement Systems are in the process of evaluating the impact of this Statement on its agencies and component units and also on the municipalities of the Commonwealth. The information to

adopt this Statement will be based on the new actuarial reports to be prepared under the new Statement No. 67 described on the previous paragraph.

- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

  The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term *operations* for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

  A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.

- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement requires a governmental entity guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. Certain qualitative factors should be considered when evaluating the likelihood of a guaranty payment, such as: initiation of a bankruptcy process, breach of a debt contract in relation to the guaranteed obligation and indications of significant financial difficulty such as failure to pay agents or trustees. This Statement is effective for financial statements for periods beginning after June 15, 2013. Although the Commonwealth's primary government currently has several outstanding nonexchange guarantees as disclosed in note 13, the specific impact on the Commonwealth's basic financial statements upon future adoption on July 1, 2013 has not yet been determined.

(2) Liquidity Risks and Uncertainties

The Commonwealth has been facing a number of fiscal and economic challenges in recent years due, among other factors, to continued budget deficits, a prolonged economic recession, high unemployment, population decline, and high levels of debt and pension obligations. The Commonwealth's very high level of debt and the resulting required allocation of revenues to service this debt have contributed to significant budget deficits during the past several years, which deficits the Commonwealth has been required to finance, further increasing the amount of its debt. More recently, the Commonwealth's high level of debt, among other factors, has adversely affected its credit ratings and its ability to obtain financing at favorable interest rates. The Commonwealth expects that its ability to finance future budget deficits will be severely limited, and, therefore, that it will be required to reduce the amount of resources that fund other important governmental programs and services in order to balance its budget. While the Commonwealth may seek to reduce or entirely eliminate the practice of financing deficits or debt service, there is no assurance that budgetary balance will be achieved and, if achieved, that such budgetary balance will be based on recurring revenues or expense reductions or that the revenue or expense measures undertaken to balance the budget will be sustainable on an indefinite basis. Moreover, the effort to achieve budgetary balance may adversely affect the performance of the Commonwealth's economy which, in turn, may adversely affect governmental revenues.

The following activities, funds, and discretely presented component units reflect deficit fund balance/net position at June 30, 2013 (expressed in thousands):

		Deficit balance
Primary Government:		
Governmental activities	$	47,212,999
General fund		2,011,026
Commonwealth's capital project fund (nonmajor governmental)		65,650
Lotteries		46,790
PRMeSA		269,065
Component units:		
PREPA		791,385
PRHIA		170,702
AEDA		97,017
CCCPRC		36,273
PRMBA		41,974
PRTC		29,336
PRMIMTA		28,484
MAC		4,721
ETEC		1,905

Risks and Uncertainties – Primary Government

The Commonwealth's governmental activities show a deficit of approximately $47.3 billion, mostly attributed to the Commonwealth's outstanding bonds amounting to approximately $35.8 billion and net pension obligation amounting to approximately $13.1 billion, which are recognized in the statement of net position. The deficit is attributable to the accumulated effect of high operating expenses in the government, including the funding of the Retirement System's cash flow deficiencies along with a decrease in estimated revenues as well as the primary government issuing debt, the proceeds of which are predominantly transferred to component units and to other governments. On the other hand, the discretely presented

component units report net position of approximately $9.8 billion. This inverse relationship between the governmental activities' and component units' net assets reveal the operational structure of the Commonwealth where the primary government issues debt, the proceeds of which are predominantly transferred to the component units and to other governments, that are not presented in these basic financial statements, to finance their capital projects and other operational needs. The Commonwealth includes within the annual budgetary appropriation process the necessary funds to cover the annual debt service requirements of the aforementioned debt, most of which are the result of Act No. 164 of December 17, 2001, described in note 12(d).

Governmental activities also include COFINA's deficit amounting to approximately $4.4 billion primarily attributable to bonds and notes payable, amounting to approximately $16.7 billion, the proceeds of which were used to pay obligations of the Commonwealth and other uses.

As further discussed in note 22, during February 2014 various rating agencies lowered their rating on the general obligation bonds of the Commonwealth to non-investment rating. They also lowered their rating on PBA and COFINA bonds, and on other bonds of various component units.

The business-type activities include PRMeSA's net deficit of $269.1 million. PRMeSA's net deficit increased by approximately $41.0 million during the year ended June 30, 2013 and had a working capital deficiency of $29.5 million at June 30, 2013. The only borrowing facility of PRMeSA is a note payable to GDB which amounted to approximately $273.3 million at June 30, 2013. Scheduled principal payments start in fiscal year 2015 to 2024.

The majority of the Commonwealth's General Fund revenues is received in the second half of the Commonwealth's fiscal year (January 1 through June 30), while expenditures from the General Fund occur more evenly throughout the fiscal year. The Commonwealth customarily addresses this timing difference by making use of internal revenues and by issuing short-term notes in the capital markets or to private financial institutions. Internal revenues consist principally of excise taxes and income taxes, a significant portion of which are received during the second half of the fiscal year, and sales and use taxes, which are received once the amounts due to COFINA have been transferred. External borrowing to cover this intrayear cash flow imbalance is typically done with tax and revenue anticipation notes that are payable later in the fiscal year in which they are issued. Due to the Commonwealth's financial challenges, it is uncertain whether private financial institutions will participate in the Commonwealth's tax and revenue anticipation note program in the future. The Commonwealth is negotiating with private financial institutions for its tax and revenue anticipation notes for the fiscal year 2015.

Also, subsequent to the Commonwealth's general obligation debt issuance of March 11, 2014, as further discussed in note 22, the Commonwealth expects that its capacity to incur additional general obligation debt will be significantly reduced as a result of the limits imposed by the Constitution of Puerto Rico on the issuance of general obligation debt (note 12(b)). As a result, the Commonwealth may be unable to issue general obligation debt in the future to finance capital improvement projects, provide working capital, and meet short-term obligations. Although the Commonwealth could seek to issue debt for which the good faith, credit and taxing power of the Commonwealth is not pledged, there may not be sufficient demand for such debt. Such debt is typically rated lower than the Commonwealth's general obligation debt and the Commonwealth's ability to issue such debt in the capital markets or to private financial institutions is

uncertain. The inability to issue general obligation debt may affect the Commonwealth's ability to make required investment in infrastructure and, thus, adversely affect economic activity in the Commonwealth.

If the Commonwealth's financial condition does not improve, it may lack sufficient resources to fund all necessary governmental programs and services as well as meet debt service obligations. In such event, it may be forced to take emergency measures. Although no specific contingency plans have been adopted to address any such situation, the GDB, as fiscal agent to the Commonwealth, together with its financial and legal advisors, is evaluating alternative courses of action. These could include administrative measures that give effect to the "priority norms" established by law for the disbursement of public funds when available Commonwealth resources are insufficient to cover all appropriations.

The Commonwealth's ability to reduce its General Fund deficit and to achieve a balanced budget in future fiscal years depend on a number of factors, some of which are not wholly within its control, including the performance of the Commonwealth's economy, that actual collections of taxes meet the Treasury Department's projections, and the government's ability to reduce and control governmental expenditures, particularly in areas such as education, public safety and healthcare, which represents a significant portion of the budget appropriations of the Commonwealth.

Remediation Plan – Primary Government

The Commonwealth's economic development program is focused on initiatives aimed at producing more diversified and sustainable economic development. One of the immediate and anchor economic development initiatives from the administration was the Jobs Now Act, signed into law on February 10, 2013. It purports to create jobs within 18 months of the new administration by eliminating certain hurdles that delay and impede the process of establishing new businesses or expanding existing businesses in Puerto Rico, it allows better access to capital, and it provides incentives under agreements between certain eligible businesses and the Commonwealth through the Puerto Rico Commerce and Exports Company. Under the Jobs Now Act, the Economic Development Bank was ordered to give priority to loan applications submitted by eligible businesses and to create programs to guarantee private financing to such eligible entities. Complementing this initiative, the Commonwealth also developed a strategic priority plan encompassed under five priority sectors: Life Sciences where the priority is to defend the traditional pharmaceutical base and pursue innovative opportunities; Knowledge Service where the Commonwealth is pursuing to grow the insurance and financial services sectors; Tourism where the Commonwealth wants to recapture the island's historical tourism's strengths and target emerging niche markets such as ecotourism, medical, cultural and sports tourism.; Small and Medium Enterprises (SME's) through a full-suite coordinated program to target them at all levels of development; and Agriculture where the Government is focusing on reducing imports by investing in high-productivity agricultural production. On February 5, 2014, the Governor announced that his administration will accelerate the infrastructure investment plan by pursuing $800 million in infrastructure investments including public-private partnerships that have been identified and by accelerating agency reviews of infrastructure investment plans. Also, the Tourism initiative added new US and international airlines to enter and serve the Puerto Rico market (like Southwest, Avianca and Seaborne), additional routes from existing airlines and increased cruise ship traffic coupled with improvements in the San Juan Harbor to accommodate larger vessels and over 6,500 new hotel rooms currently in financial permits or construction phases.

The Department of the Treasury has also elaborated a strategic plan designed to improve tax collections, foster tax compliance, implement effective enforcement measures, and attack tax evasion. To promote taxpayers' compliance, the Department of the Treasury has liberalized the procedures to enter into payment plans, offers-in-compromise agreements, and encouraged voluntary disclosure agreements. In addition, the Department of the Treasury has developed initiatives focused on effective enforcement methods, such as improving the efficiency of its audit selection process, the creation of technological solutions to improve collections, and the establishment of cooperation agreements with federal and local governmental agencies. The Department of the Treasury has also integrated its databases and established a tax intelligence project to identify tax evasion and improve its audit selection process. Previous initiatives established related to the implementation of a new point of sale system for the collection of the sales and use taxes continue to be enhanced by adding various enforcement and compliance programs. The Department of the Treasury has also been actively seizing the assets of businesses that are delinquent on their sales and use tax payments, making public disclosures of such delinquent entities, and has entered into agreements with various municipalities to conduct simultaneous field visits and joint audits in order to increase the effectiveness of the sales and use tax enforcement efforts as the ones described above.

The Department of the Treasury also implemented a temporary measure to collect on payroll and employer withholding debts. This measure allows employers to enter into payment plans with the Department of the Treasury, subject to the employer making a down payment of 25%, in the case of payroll debts, and 40%, in the case of employer withholding debts, of the total outstanding debt. Additional revenue enhancing measures such as the sale of tax accounts receivable are being actively planned to further reduce the deficit for the fiscal year 2014.

In addition to collection efficiency measures described above, the Commonwealth has also enacted legislation to expand and increase its revenue base. On June 30, 2013, the Commonwealth enacted Acts No. 40 through No. 48 (also known as the Comprehensive Tax Reform Acts), which amended several Acts, Regulations and Industry Tax Codes. All these amendments are designed to achieve, among other things, an expansion of the revenue base of the General Fund of the Commonwealth, and are expected to bring additional and consistent tax revenue. These revenue enhancing measures, along with other cost cutting plans, are intended to address the structural deficit of the Commonwealth, add new revenues to the General Fund that would serve as a catalyst for economic growth and protect and strengthen the credit rating of the Commonwealth and its principal component units. The aforementioned amendments involve, among other changes, increases in the excise taxes on cigarette imports (Act No. 41); the establishment of a new national "volume of business" tax ranging between 0.2% to a maximum of 0.85% (1% for financial institutions) on the gross sales/revenue to businesses with a volume of sales/revenue exceeding $1 million (Act No. 40); the imposition of the sales and use taxes to certain business to business transactions, as defined, previously excluded, and other procedural changes (Acts No's. 40 and 42); additional limitations on certain deductions and credits that were formerly available on the tax returns of individuals (Act No. 40); increase in the corporate tax rates from 30% to 39% coupled with a reduction in the surtax exemption base from $750,000 to $25,000 (Act No. 40); increases in the escalating tax rates applicable for the alternative minimum tax determination on individuals and corporations (Act No. 40); a new surtax of 2% applicable to self-employed individuals with over $200,000 in gross income as defined (Act No. 40); a special contribution of 1.5% imposed on payments made for professional and consulting services rendered to a governmental entity (Act No. 48); and increases in the share of slot machines in casinos and the restructuring of the manner in which their profits are distributed (Act No. 48). In addition, subsequent to

June 2013, Act No. 117 of 2013 also amended the mechanism for collection of the sales and use tax from certain merchants after July 1, 2014, which is expected to improve collection. After such date, importers will be required to pay the tax on the imported merchandize and will be able to claim a credit for sales tax collected on subsequent resale of the merchandise. Some of these Acts also assigned funds for the enhancing and strengthening of the sales and use tax collection process (Act No. 46); created the 2013–2014 Budgetary Support Fund that was nourished with appropriately $96.5 million provided from transfers of excess cash from other funds, mostly coming from the Department of Education and the State Insurance Fund Corporation (Act No. 43); and the creation of a $92.5 million Fiscal Reconstruction Fund to be funded by the GDB using either its own funds or third party financing, in its capacity as the Commonwealth's fiscal agent. The loan, which will be evidenced by bonds and notes, will constitute an obligation of the Commonwealth, whose good faith, credit, and taxing power will be irrevocably pledged for the prompt payment of the principal of and interests on the bonds/notes. The $92.5 million to be deposited in the Fiscal Reconstruction Fund will be allocated to the Municipal Revenue Collection Center (CRIM) and AEDA.

Another action taken by the Commonwealth was addressing the budget deficits for fiscal year 2014 and 2015. On February 28, 2014, Act No. 33 was enacted to reduce the fiscal year 2014 appropriations by $170 million through various measures: (i) elimination of $77 million from certain reserve and contingency accounts under the custody of the OMB, no longer deemed necessary, (ii) reduction of $29 million in certain programs' appropriations not considered a priority, and (iii) reductions in agency budgets of approximately $64 million to be achieved by reaching for a weighted average reduction of 2% across all agencies' budgets. The Governor has also announced simultaneously with the aforementioned legislation of the $170 million reduction in 2014 appropriations, a recommendation for the Legislative Branch approval of a balanced budget for fiscal year 2015. The Commonwealth believes these budget balancing efforts in 2015 will establish the fiscal discipline to be maintained going forward.

In addition to eliminating the budget deficits in 2015, the Commonwealth needs to address certain cost escalators that might jeopardize the achievement of a balanced budget. One of such cost escalators consists of the higher operating subsidy requirements for many public corporations which are running deficits that are creating financial and cash flow distress on the GDB, which usually funds them, and the Commonwealth, which customarily provides annual appropriations to assist them. The Government has already reacted to these cost escalators by addressing specific areas of dependencies on certain public corporations that are key drivers of Puerto Rico's economic growth. On June 17, 2014, the Commonwealth enacted Act No.66 (also known as Fiscal Operation and Sustainability Act), which provides the legal base to address certain cost escalators to achieve a balanced budget. Act No.66 provides the following cost reduction measures: (i) reduction of at least 10% of external professional services contracts; (ii) authorization to adjust unilaterally the professional services rates; (iii) reduction of at least 10% of the trusted employees; (iv) freezing period for new recruitment of employees at the Executive Branch; (v) the Executive Branch cannot provide salary increases or increase benefits to the employees; (vi) establishment of a maximum amount of $600 for Christmas bonus and $200 for vacation bonus; (vii) elimination of payment of balances in excess over a maximum days of sick and vacation accruals; (viii) establishment of a legal framework to provide cost reduction at the public corporations of the Commonwealth; (ix) and other cost reduction measures.

PRMeSA's management adopted a fiscal stabilization plan that includes the following measures: (a) implementation of a new administration platform; (b) increase of actual contracted rates among existing

government insurers as a function of incurred administration costs, frequency, severity of medical services and risk distribution throughout the insurance provider network; (c) implementation of an insurance coverage system for the medical indigent population through the PRHIA; (d) redefinition of contractual agreements with the government and commercial insurers; (e) improvement and implementation of an effective accounts receivable collection process; (f) redefinition and/or amendment of contractual agreements with major suppliers based on actual needs; and (g) formal request to various Commonwealth's agencies, including OMB, requesting additional funds to subsidize its operating deficit and improve its financial condition.

Risks and Uncertainties – Retirement Systems

The Pension Trust Funds' unfunded actuarial liability and funded ratio as of June 30, 2013, were approximately $33,684 million and 7.4%, respectively. In the opinion of management, based on information prepared by consulting actuaries, the net position of the Employees' Retirement System of the Government of Commonwealth of Puerto Rico, the Retirement System for the Judiciary of the Commonwealth of Puerto Rico, and the Puerto Rico System of Annuities and Pension of Annuities and Pension for Teachers, comprising the Pension Trust Funds, will turn into a deficit by fiscal years 2015, 2019, and 2020, respectively, if measures are not implemented to reduce to unfunded actuarial accrued liability and increase the funded ratio of the Pension Trust Funds.

The estimate of when each of the Pension Trust Funds' net position will become a deficit and when their assets would be exhausted is based on significant assumptions, including the rate of return on investments, the amount and timing of collections from the Commonwealth for the member, employer contributions and the employer additional contribution for ERS (Act No. 32), which as discussed below, was estimated in $120.0 million annually, as well as the estimated participant benefits and the Pension Trust Funds' administrative expenses to be paid each year.

The Pension Trust Funds' funding requirements could have a direct negative effect on the Commonwealth's General Fund, since the Commonwealth is the plan sponsor and is obligated to make contributions to fund the Pension Trust Funds.

If the Commonwealth's financial condition does not improve as a result of fiscal and budgetary measures it is taking, its ability to repay its obligations, including its regular employer contributions to the Pension Trust Funds and the additional contribution for ERS as provided by Act No. 32, for the upcoming years, may continue to be adversely affected, and could also affect the repayment of the Pension Trust Funds' bond payable.

Remediation Plan – Retirement Systems

To improve the liquidity and solvency of the ERS, the Commonwealth enacted Act No. 32 of June 25, 2013, which provided for incremental annual contributions from the General Fund beginning in fiscal year 2014 and up to the fiscal year 2033. This additional contribution will be determined annually based on actuarial studies to be performed by the ERS' actuaries.

On April 4, 2013, the Governor of Puerto Rico signed into law Act No. 3 of 2013 (Act No. 3), which adopted a comprehensive reform of the Employees Retirement System of the Commonwealth, the largest of the three Commonwealth retirement systems that are funded primarily with budget appropriations from

the Commonwealth's General Fund. Based on current census data, expectations of market conditions and other actuarial information provided by consulting actuaries, the changes instituted by Act No. 3, along with the additional annual contribution of $120 million to be received from the Commonwealth during the next 20 years, will be sufficient to cover the Employees Retirement System's current and future obligations; contrasting with the approximately $900 million annual contribution being received from the Commonwealth prior to Act No. 3. This Act was litigated in the courts and during the second half of fiscal year 2013 the Puerto Rico Supreme Court upheld its validity and constitutionality (See note 17 for further description about this comprehensive reform). During the first half of fiscal year 2014, the Commonwealth has enacted legislation to reform the two other retirement systems of the Commonwealth, the Teachers Retirement System and the Judiciary Retirement System, by among other measures, reducing benefits, increasing employee contributions and replacing most of the defined benefit elements of the system with a defined contribution system. The more significant of these two remaining retirement systems is the Teachers Retirement System, which is being reformed through the passage of Act No. 160 of December 24, 2013. The constitutionality of Act No. 160 was challenged in court, and on April 11, 2014 the Supreme Court declared certain sections unconstitutional while maintaining the constitutionality of the following: (i) all changes made to the benefit structure apply to future participants that are hired after July 31, 2014; (ii) elimination of special laws benefits for participants that retire on or after August 1, 2014; and (iii) reduction of special laws benefits to current retirees as of July 31, 2014. Currently, the Supreme Court's decision is under the Commonwealth's evaluation and analysis in order to determine the course of action to undertake.

Risks and Uncertainties – GDB

The GDB lends funds to public corporations for capital improvements and operating needs. The loans for capital improvements generally are construction loans and are generally repaid from the proceeds of future bond issuances of the respective public corporations. The amount of outstanding loans from the GDB to the public corporations fluctuates annually, depending upon the capital program needs of the public corporations, the timing and level of their capital expenditures, and their ability to gain access to the long-term capital markets. The participation of certain of these public entities in the bond market has been delayed waiting for the credit rating of such entities to improve or for more favorable market conditions.

Loans to the Commonwealth and its public corporations amounted to approximately $6.9 billion or 48% of the GDB's total assets as of June 30, 2013. These loans are expected to be collected through appropriations from, bond issuances of, and revenues generated by the Commonwealth and its public corporations. The GDB's liquidity and financial condition depends on the repayment of loans made to the Commonwealth and its public corporations which face significant fiscal and financial challenges in their ability to generate sufficient funds from taxes, charges and/or future bond issuances.

The Commonwealth's recurring expenditures have exceeded its recurring revenues during the past fourteen years. During the fiscal year ended June 30, 2013, and subsequent to the end of the fiscal year, the GDB's liquidity position was adversely affected by, among other factors, a significant increase in credit spreads for obligations of the Commonwealth and its public corporations, the Commonwealth's limited capital markets access, and a significant reduction of liquidity in the local Puerto Rico capital markets. In February 2014, the credit ratings of the Commonwealth and most of its public corporations (including the GDB) were lowered to noninvestment grade categories. With respect to the GDB, Moody's Investors Service (Moody's) lowered its credit rating to "Ba2" and maintained its negative outlook, while Standard

& Poor's Rating Services (S&P) lowered its credit rating to "BB" and maintained it in "CreditWatch" with negative implications. These factors have resulted in delays in the repayment by the Commonwealth and its public corporations of their loans payable to the GDB and, at the same time, caused the Commonwealth and its public corporations to rely more heavily on short-term financing from the GDB. The credit rating downgrades could further adversely affect the GDB's liquidity position. In addition, the liquidity of the GDB could also be affected by short-term obligations of the Commonwealth and its public corporations maturing during fiscal years 2014 and 2015, some of which are also subject to earlier acceleration as a result of the downgrades. The majority of these short-term obligations of the Commonwealth and its public corporations were refinanced with proceeds from the recent issuance of Commonwealth general obligation bonds (described below). However, several of such short-term obligations of the Commonwealth and its public corporations remain outstanding. Although the GDB has previously assisted the Commonwealth and its public corporations in satisfying obligations similar to those listed above, the GDB is not legally required to provide such assistance and there is no assurance that it will be able to continue to provide such assistance to any or all of the Commonwealth and its public corporations. To the extent that the GDB's financing is unavailable, the Commonwealth and its public corporations may be required to find other sources of funding in order to meet their obligations. There is no assurance that the Commonwealth and its public corporations will be able to access other sources of financing or obtain funding sufficient at any one time to meet their obligations as they come due. If such other financing or funding source are not available, the financial condition of the Commonwealth and the public corporations could deteriorate further and their ability to repay their loans to the GDB may be adversely affected.

A particular attention is being placed on loans granted by the GDB to the PRHTA. As of June 30, 2013, the GDB has extended various credit facilities to the PRHTA for, among other, capital improvement programs, working capital, debt service and collateral posting requirements. The outstanding balance of such facilities amounts to $2 billion, including accrued interest of $145 million, which represent 14% and 83% of GDB's total assets and net position, respectively, at June 30, 2013.

The GDB, in its ordinary course of business, provides interim lines of credit to public corporations like the PRHTA. These lines of credit have historically been repaid from bond issuances of each public corporation, once they regain or have access to the capital markets. No public corporation has ever defaulted on its obligations with the GDB. Refer to the section Risk and Uncertainties – Other Public Corporations for further information about the liquidity risks of PRHTA.

The PRHTA has reported net operating losses during each of the four fiscal years in the period ended June 30, 2013, and, as a result, the GDB has been partially financing its operations through credit facilities. In fiscal year 2010, the PRHTA entered into a fiscal oversight agreement with the GDB, whereby the GDB, among other things, imposes conditions on the extensions of credit to the PRHTA and continually monitors its finances. The PRHTA expects to repay the credit facilities due to the GDB with proceeds from the issuance of bonds within the next two fiscal years. On February 7, 2014, Moody's Investor Service downgraded PRHTA's highway revenue bonds from Baa2 to Ba1, PRHTA's transportation revenue bonds from Baa3 to Ba2, and PRHTA's subordinate transportation revenue bonds from Ba1 to Ba3.

Remediation Plan – GDB

Since one of GDB's principal functions is to provide financing to the Commonwealth and its instrumentalities, GDB's loan portfolio includes loans to various departments and agencies of the

Commonwealth, to various public corporations (component units), and to municipalities, which represent a significant portion of GDB's assets. Loans to the Commonwealth and its instrumentalities typically include working capital lines of credit payable from short-term tax and revenue anticipation notes issued by the Commonwealth, interim financing of capital improvements payable from Commonwealth's general obligation bonds or revenue bonds issued by the corresponding instrumentality, and in recent years, loans to finance the Commonwealth's budget deficit payable from COFINA, uncollected taxes, legislative appropriations and, to a lesser extent, from loans provided by sources other than the GDB, federal grants, and the sale of assets of component units, if necessary. Accordingly, the collectability of these loans may be affected by budgetary constraints, the fiscal situation and the credit rating of the Commonwealth and its component units, and their ability to generate sufficient funds from taxes, charges, and/or bond issuances. Continuance of and/or significant negative changes in these factors may have an adverse impact on GDB's financial condition, liquidity, funding sources, and results of operations. Loans to municipalities are expected to be repaid principally from a portion of property tax assessments or municipal sales tax of each municipality.

Notwithstanding the aforementioned uncertainties and risks, the Commonwealth and the GDB have adopted and continue to adopt measures to mitigate these risks and uncertainties. As part of its role of providing financing to the Commonwealth and its instrumentalities to further the economic development of Puerto Rico, and as part of its risk management activities, the GDB is renegotiating and/or restructuring payment terms of the loans to certain governmental entities. Some of the renegotiations/restructurings extend the period for principal repayment but provide for repayment of the contractual interest in accordance with the original terms. Certain loans whose repayment source was originally from COFINA and from future issuances of Commonwealth's general obligation bonds are currently being repaid with annual legislative appropriations based on payment schedules proposed by the GDB, which are based on a period of amortization of 30 years, at contractual interest rates. The GDB will annually submit to the OMB, to be included in the Commonwealth's budget for legislative approval in each subsequent fiscal year, an amount established in the payment schedules with the terms stated above. However, there can be no assurance that the director of the OMB will include an amount for loan repayments in the Commonwealth's budget, and that the Legislature will appropriate sufficient funds in the future to cover all amounts due to the GDB on these loans. The Commonwealth has recently reformed and amended GDB's lending practices, financing capacity and oversight powers of public funds through Act No. 24 of February 13, 2014. This Act prohibits the GDB, subject to certain limited exceptions, from making loans to public corporations payable from future increases in rates, taxes or other charges. In essence, each public corporation seeking financing from the GDB must demonstrate sufficient approved revenue streams to cover debt service on any GDB loan. Act No.24 is intended to impose fiscal discipline on the public corporations, while preserving GDB's net position. In addition, Act No. 24 also (i) increases from $550 million to $2 billion the amount of the GDB obligations that can be guaranteed by the full faith and credit of the Commonwealth to provide the GDB with greater flexibility in its role of granting interim financing to public corporations and agencies; (ii) grants the GDB the ability to exercise additional oversight over certain public funds deposited at private financial institutions and grants the GDB the legal authority, subject to an entity's ability to request waivers under certain specified circumstances, to require such public funds (other than funds of the Legislative Branch, the Judicial Branch, the University of Puerto Rico, governmental pension plans, municipalities and certain other independent agencies) to be deposited at the GDB, which is expected to result in a more efficient management of public resources; and (iii) provides a process through which the OMB may assume, on behalf of the Commonwealth, the repayment

from budgetary appropriations (commencing fiscal year 2017) of certain obligations owed by governmental agencies or public corporations to the GDB, up to a maximum amount of $500 million.

Management of the PRHTA and GDB are working with various alternatives for the PRHTA to gain access to the bond capital market, including, among other, a new trust indenture, revenue increasing measures, and expense reduction measures. If such alternatives are not materialized, the PRHTA could default on its credit facilities with the GDB, which may have a material adverse effect on the financial condition, operating results and liquidity of the GDB. GDB's management, however, believes that in such case alternatives are not materialized, the Commonwealth would provide financial support to the PRHTA in order to repay its outstanding borrowings with the GDB.

As part of the measures taken by the Commonwealth to reduce the credit exposures the GDB has on the PRHTA, Act No. 41 was enacted effective July 1, 2013, and establishes an increase to the cigarettes and other tobacco derivatives tax. The new act will impose an additional tax of $11.15 for every 100 cigarettes. Starting on July 1, 2013, the total tax will by $16.15 for every 100 cigarettes. Starting on July 1, 2015, it will be $17.

As part of its risk management activities and as a condition to provide financing support to certain public corporations, the GDB has entered into fiscal oversight agreements with certain public corporations. The agreements require the public corporations, among other, to implement a comprehensive expense reduction program, including certain fiscal oversight controls, subject to laws and existing agreements of the public corporations, designed to minimize future tariff increases to households and the private sector, and to protect and improve the credit rating of the public corporations, so that the public corporations may obtain adequate financing to fund its capital expenditure requirements and to operate its infrastructure in an efficient and reliable manner and in compliance with applicable laws and regulations. GDB's agreement to provide current financing and any future financing is expressly conditioned upon the public corporations' compliance with the covenants established in the fiscal oversight agreement and GDB's right to monitor and enforce such compliance. These agreements will be in effect until the public corporations have regained a level of financial stability and are able to secure long-term financing that will result in the continued stability of the public corporations' operations and financial condition. As of June 30, 2013, GDB's management determined that all public corporations and agencies have complied with the material terms and conditions of their respective agreements.

As further described in note 22, during March 2014, there was a $3.5 billion bond issuance of Commonwealth general obligation bonds, which provided for the repayment of approximately $1.9 billion of loans made by the GDB to the Commonwealth and the Public Buildings Authority (PBA), reducing the outstanding balance of the GDB's loans to the Commonwealth by $1.7 billion and of GDB's loans to PBA by $187 million.

Additionally, under recently enacted legislation, the GDB has the legal authority to require that certain public funds currently deposited at private financial institutions, including demand deposit accounts, be deposited at the GDB, subject to specified exceptions.

Based on previous experience and recent developments, GDB's management believes that the carrying amount of most of the loans to the public sector will be collected (including interest at the contractual interest rate).

Risks and Uncertainties – Other Public Corporations

Certain of the Commonwealth's public corporations are currently in financial distress and are facing specific liquidity risks including PREPA, PRASA, PRHTA, PRHIA and PRPA. These public corporations are reported in the aggregate discretely presented component units column of the basic financial statements. Management at these public corporations is currently implementing the provisions of Act 66-2014, which provides for certain cost reduction measures, as well as the evaluation of measures to increase revenues. Additionally, as further described in note 22, on June 28, 2014 the Commonwealth enacted the Puerto Rico Public Corporation Debt Enforcement and Recovery Act (the "Debt Enforcement Act"). The Debt Enforcement Act provides an orderly, statutory process for the enforcement and restructuring, in a fair and equitable manner, of the debts and other obligations of certain public corporations experiencing financial distress, while ensuring the continuity of essential public services to the people of Puerto Rico. However, if management of such component units is unable to reduce their operational expenses, increase their revenues and/or reduce their debts, such component units may need to seek relief under the Debt Enforcement Act. The Government expects, however, that only those public corporations which have no other reasonable alternatives to be able to meet their debts and other contractual commitments while continuing to perform essential public functions would avail themselves of the provisions of the Debt Enforcement Act.

As discussed in Note 22, on June 28, 2014, a group of bondholders requested a declaratory judgment challenging the constitutionally of the Debt Enforcement Act in the U.S. District Court for the District Court of Puerto Rico.

Also, as previously mentioned the Commonwealth has recently reformed and amended GDB's lending practices, financing capacity and oversight powers of public funds through Act No. 24 of February 13, 2014. The Debt Enforcement Act prohibits the GDB, subject to certain limited exceptions, from making loans to public corporations payable from future increases in rates, taxes or other charges. In essence, each public corporation seeking financing from the GDB must demonstrate sufficient approved revenue streams to cover debt service on any GDB loan. Act No.24 is intended to impose fiscal discipline on the public corporations, while preserving GDB's net position.

Specific financial information regarding these public corporations follows:

PREPA - At June 30, 2013, PREPA had a net deficit of $791 million. Subsequent to June 30, 2013 PREPA has continued experiencing weak financial performance and currently faces heightened liquidity and market access risk stemming from the maturity of two short-term lines of credit (LOCs) and the required repayment of outstanding borrowings totaling $641 million in July and August 2014. PREPA's management is currently negotiating the renewal of these lines of credit with the corresponding commercial banks. PREPA's ability to repay its outstanding lines of credit is limited and its ability to extend, renew or replace these lines of credit is uncertain. In addition to this immediate liquidity need, PREPA has had material recurring operational deficits (negative cash flow), currently has a very high level of debt and faces large non-discretionary capital expenditure requirements, all while facing a declining demand for electricity. As a result, if PREPA is unable to address these issues in the short-term, it may need to seek relief under the Debt Enforcement Act. As of June 27, 2014, PREPA has set aside sufficient funds to cover the debt service payment due on July 1, 2014 on its revenue bonds.

As further discussed in note 22, subsequent to June 30, 2013 PREPA's revenue bonds have been

downgraded several times by rating agencies, being June 26, 2014, the most recent downgrade where Moody's and Fitch downgraded the rating on $8.7 billion of PREPA's power revenue bonds from Ba2 to Ba3 and from BB to CC, respectively. On June 27, 2014, S&P also downgraded the same bonds from BBB- to BB. The downgrades reflect concerns with PREPA's increasingly tight liquidity and the ratings agencies' view, based on the enactment of the Debt Enforcement Act, that a debt restructuring or default by PREPA is probable as a result of the near-term maturities of the bank lines of credit mentioned above.

After considering the remediation plans further described in the *Remediation Plan – Other Public Corporations* section of this footnote, and the effect of the subsequent events previously described, in management's opinion PREPA's financial condition might raise significant liquidity risk regarding PREPA's ability to meet its financial obligations as they come due in the near future.

PRASA – At June 30, 2013 PRASA had a net position of $2,998.9 million, which includes revenue bonds payable of $4,522.7 million, notes payable of $469.7 million and lines of credit of $89.8 million. PRASA's net position decreased by $367.9 million during the year ended June 30, 2013 and had a working capital deficiency of $276.4 million at June 30, 2013. As further discussed in note 22, subsequent to June 30, 2013, PRASA's revenue bonds have been downgraded several times by rating agencies, being June 27, 2014, the most recent downgrade where Moody's lowered the ratings assigned to PRASA's revenue bonds to Ba3 from Ba2. Subsequent to June 30, 2013 PRASA significantly increased its rates for service charges.

PRHTA – PRHTA is currently experiencing severe financial difficulties and its operations during the last years have been financed through lines of credit provided by GDB. PRHTA net position decreased by approximately $140.5 million during the year ended June 30, 2013 and had a working capital deficiency (excluding current restricted assets and the current liabilities payables from restricted assets) of $50.9 million at June 30, 2013. Loans with GDB at June 30, 2013 amounted to $2,045.1 million. On June 27, 2014, Moody's lowered ratings on the bonds of PRHTA from Ba2 to Ba3.

PRHIA – At June 30, 2013, PRHIA had a net deficit of $170.7 million. PRHIA's net deficit increased by approximately $17 million during the year ended June 30, 2013 and had a working capital (excluding lines of credit with GDB of approximately $171.1 million maturing between 2015 and 2023) of approximately $33.4 million.

PRPA – At June 30, 2013, PRPA had a net position of approximately $133.3 million. PRPA's net position decreased by $73.4 million during the year ended June 30, 2013 and had a working capital deficiency of approximately $218.2 million at June 30, 2013.

Remediation Plan – Other Public Corporations

The following are significant actions taken by the other public corporations having significant financial distress to improve their operations:

PREPA: Conversion to natural gas as a fuel source has been completed at PREPA's second largest generating plant, reducing oil dependency by another 11% and negotiations to permit the conversion of PREPA's largest generating plant (18% of total capacity) are underway. In August 2013, PREPA successfully completed a $673 million bond issuance to fund its capital improvement program, including the conversion to natural gas of existing oil-fired generation units, which is expected to enable PREPA to improve its operating efficiency. On May 27, 2014, the Commonwealth enacted Act No.57 that

restructures the Telecommunications Regulatory Board into an Energy and Telecommunications Commission, which will be responsible for all energy and telecommunications regulatory matters. This new entity would also be responsible for all tariff-related issues.

PRASA: In July 2013, PRASA implemented a 60% rate increase, on average, that will provide additional revenues to cover operational expenses and improve debt service coverage. As a result of this increase, in contrast with prior years, the Commonwealth does not anticipate having to appropriate funds to PRASA for its operational expenses.

PRHTA: On June 25, 2013, the Legislature of the Commonwealth enacted Act No. 30 and Act No. 31 to raise additional annual revenues for the PRHTA to repay its outstanding loans with the GDB. The additional annual revenues consist of (1) transfer to the PRHTA of vehicle license fee revenues currently received by the Commonwealth's Department of the Treasury, which amount to approximately $62.5 million; (2) increase in the petroleum products tax from $3.00 per barrel to $9.25 per barrel (to be adjusted for inflation, every four years beginning in 2017, based on the accumulated compounded yearly increase in the USA CPI Index plus a margin of 1.5%), which are estimated to generate approximately $189 million; (3) transfer to the PRHTA of the first $20 million in annual cigarette tax revenues currently collected by the Commonwealth's Department of the Treasury. All these measures would generate a total of approximately $270 million in new and additional annual revenues. Also recently approved legislation changed the governance structure of the PRHTA by establishing a board of directors.

PRHIA: PRHIA's management adopted a fiscal stabilization plan that includes the following measures: (a) maximization of discounts or rebates with respect to prescription drugs dispensed to beneficiaries; (b) implementation of a monitoring program with all insurance companies through audits and imposition of penalties and fines for noncompliance; (c) maximization of process of petitions of federal funds through more efficient segregation of Commonwealth and Federal beneficiaries; (d) improvement and implementation of an effective accounts receivable collection process. *PRPA*: On February 27, 2013, the Commonwealth finalized the public-private service concession arrangement involving Puerto Rico's Luis Muñoz Marin International Airport (LMMIA) and received an upfront payment of approximately $615 million that is reported as a component of deferred inflow of resources in the accompanying statement of net position. This transaction strengthened the PRPA's fiscal position and reduced both the PRPA's and the GDB's risk position by repaying over $490 million, most of which had been either owed to or guaranteed by the GDB.

(3) Restatements and Changes in Reporting Entity

During 2013, the Commonwealth identified various errors related to the prior year financial statements. In addition, the Commonwealth adopted GASB Statement No. 61, The Financial Reporting Entity: Omnibus (GASB Statement No. 61), which resulted in a change in the reporting of certain component units. The impact of correcting these errors and the effect of the adoption of GASB Statement No.61 are as follows:

Primary Government

Governmental Activities:

The following table summarizes the changes to net position (deficit) at the beginning of the year as previously reported by the primary government (expressed in thousands):

		Primary government		
		Governmental activities	**Business-type activities**	**Totals primary government**
Net position (deficit) – July 1, 2002, as previously reported	$	(40,000,636)	963,250	(39,037,386)
Changes in reporting entities:				
PRIFA		(1,526,404)	—	(1,526,404)
SCPT		(255,651)	—	(255,651)
PRMeSA		—	(227,736)	(227,736)
Correction of error:				
Public Housing Administration (PHA)(a)		(11,097)	—	(11,097)
Public Buildings Authority (PBA)(b)		(36,581)	—	(36,581)
Office for the Improvement of Public Schools (OIPS)(c)		330	—	330
Puerto Rico Department of Housing (PRDH)(d)		(96)	—	(96)
Labor Development Administration (LDA)(d)		(17)	—	(17)
Governing Board of 9-1-1 Services (9-1-1 Service)(e)		—	40,809	40,809
Net position (deficit) – July 1, 2012, as restated	$	(41,830,152)	776,323	(41,053,829)

The changes in reporting entity resulted from the adoption of GASB Statement No. 61 by which PRIFA and SCPT became blended component units within governmental activities, while PRMeSA became a blended component unit within business-type activities.

The corrections of error resulted from the following:

a) Approximately $11.1 million in capital assets continued to be reported by PHA after such assets had been transferred to other entities in previous years.

b) The capital assets of PBA were overstated by approximately $35.2 million due to certain accounting errors related to interest and administrative expenses incorrectly capitalized in construction in progress; unamortized bond premium was overstated by approximately $2.7 million and accounts payable were understated by approximately $4.1 million.

c) The accounts payable of OIPS (reported within the General Fund) were overstated by approximately $330 thousand.

d) The accounts payable of PRDH and LDA (both presented within the General Fund) were understated by approximately $96 thousand and $17 thousand, respectively.

e) The 9-1-1 Service, with a fund balance of approximately $40.4 million was, incorrectly presented in prior years as a discretely presented component unit. However, it did not have sufficient corporate powers to be considered a separate legal entity. The reporting entity error was corrected in current year by presenting it as a proprietary fund. Additionally, certain payables were understated by approximately $371 thousand.

Governmental Funds:

The following table summarizes the changes to fund balances (deficit) at the beginning of the year as previously reported in the statement of revenues, expenditures, and changes in fund balances (deficit) by the governmental funds (expressed in thousands):

		General Fund	Other Governmental Funds	Total Governmental Funds
Fund balances (deficit) – July 1, 2012, as previously reported	$	(1,106,556)	1,202,397	1,477,107
Changes in reporting entity:				
PRIFA		—	375,019	375,019
SCPT		—	108,278	108,278
Correction of error:				
PBA Blending (a)		—	(179,643)	(179,643)
PBA other (b)		—	(21,421)	(21,421)
PRDH (c)		(61,952)	—	(61,952)
OIPS (d)		330	—	330
LDA (e)		(17)	—	(17)
Fund balances (deficit) – July 1, 2012, as restated	$	(1,168,195)	1,484,630	1,697,701

The changes in reporting entity resulted from the adoption of GASB Statement No. 61 by which PRIFA and SCPT became blended component units within other governmental funds.

The corrections of error resulted from the following:

a) During the process of blending PBA into the Commonwealth's financial statements, approximately $179 million of current accounts payable were erroneously deemed not payable from current financial resources, and were excluded from the fund financial statements.

b) PBA had an understatement of deferred revenue of approximately $12.9 million, receivables were overstated by approximately $24.9 million, debt service accruals were understated by approximately $11.5 million, accounts payable were understated by approximately $4.1 million, and other current liabilities were understated by approximately $18.5 million

c) Certain assets of PRDH (presented within the General Fund) classified as held for sale in prior years for approximately $61.7 million, were deemed overstated because they were not considered available to pay current liabilities. Also, accounts payable were understated by approximately $96 thousand.

d) The accounts payable of OIPS (reported within the General Fund) were overstated by approximately $330 thousand.

e) The accounts payable of LDA (presented within the General Fund) were understated by approximately $17 thousand.

During fiscal year 2012, the Pledged Sales and Use Tax fund was presented as a separate major special revenue fund, when it did not meet the criteria for such presentation. This fund should have been presented within the COFINA debt service fund. For 2013, the correct presentation of the Pledged Sales and Use Tax fund was made within the COFINA debt service fund; however, this restatement does not appear in the table above because the Pledged Sales and Use Tax fund has always carried a zero fund balance.

Proprietary Funds:

The following table summarizes the changes to net position at the beginning of the year as previously reported by the proprietary funds (expressed in thousands):

		Puerto Rico Medical Services Administration	Other proprietary	Total proprietary
Net position – July 1, 2012, as previously reported	$	—	680,663	963,250
Changes in reporting entity:				
PRMeSA		(227,736)	—	(227,736)
Correction of error:				
9-1-1 Service		—	40,809	40,809
A non-major fund turned into a major fund:				
Puerto Rico Water Pollution Control Revolving Fund		—	(389,152)	—
Net position (deficit)– July 2012, as restated	$	(227,736)	332,320	776,323

The following table summarizes the changes to cash and cash equivalents at the beginning of the year as previously reported in the statement of cash flows by the proprietary funds (expressed in thousands):

		Puerto Rico Medical Services Administration	Other proprietary	Total proprietary
Cash and cash equivalents - July 1, 2012, as previously reported	$	—	176,653	635,041
Changes in reporting entity:				
PRMeSA		267	—	267
Correction of error:				
9-1-1 Service (a)		—	24,700	24,700
Inclusion as major fund:				
Puerto Rico Water Pollution Control Revolving Fund		—	(81,952)	—
Cash and cash equivalents - July 1, 2012, as restated	$	267	119,401	660,008

The changes in reporting entity resulted from the adoption of GASB Statement No. 61 by which PRMeSA became a blended component unit within business-type activities. Also the Puerto Rico Water Pollution Control Revolving Fund turned into a major fund by exceeding the quantitative thresholds provided by GASB Statement No. 34.

The correction of error resulted from the following:

a) The 9-1-1 Service was incorrectly presented in prior years as a discretely presented component unit. However, it did not have sufficient corporate powers to be considered a separate legal entity. The reporting entity error was corrected in current year by presenting it as a proprietary fund.

Discretely Presented Component Units

The following table summarizes the changes to net position at the beginning of the year as previously reported in the statement of activities by certain discretely presented component units (expressed in thousands):

Net position – July 1, 2012, as previously reported	$	8,903,698
Changes in reporting entities:		
PRIFA		1,526,404
PRMeSA		227,736
SCPT		255,651
UPR		1,990
CIBMRIP		565
Impact of GASB No. 60 implementation:		
PRHTA		5,441
Error corrections:		
AACA (a)		52,402
9-1-1 Service (b)		(40,438)
GDB (c)		(19,903)
AEDA (d)		(15,784)
SWA (e)		(8,089)
PRTEC (f)		2,082
PRMBA (g)		(1,241)
PRTC (h)		(1,194)
ETEC (i)		838
IPRC (j)		(520)
PRSPA (k)		341
LRA (k)		292
Net position – July 1, 2012, as restated	$	10,890,271

The changes in reporting entity resulted from the adoption of GASB No. 61 by which PRIFA and SCPT became blended component units within governmental activities, PRMeSA became a blended component unit within business-type activities, the UPR added two component units to its reporting entity, and CIBMRIP was added as a discretely presented component unit of the Commonwealth.

The adoption of GASB No. 60, resulted in the retroactive recognition by the PRHTA of certain infrastructure assets under service concession agreements in the amount of approximately $75.5 million and the corresponding deferred inflows of resources for approximately $70.1 million.

The corrections of error resulted from the following:

a) AACA had an overstatement of claims liability for approximately $60.0 million, an understatement of its post-employment benefit obligation for approximately $5.4 million, and an overstatement of approximately $2.2 million in capital assets.

b) The 9-1-1 Service was incorrectly presented in prior years as a discretely presented component unit. However, it did not have sufficient corporate powers to be considered a separate legal entity. The reporting entity error was corrected in current year by presenting it as a proprietary fund.

c) Accounts payable and accrued liabilities of GDB were understated by approximately $20.4 million related to federal cost disallowance. Such claim existed in prior years, but was not recognized. This understatement was recognized net of an overstatement of approximately $525 thousand in other current liabilities.

d) AEDA had an overstatement of capital assets for approximately $2.9 million and an understatement of long-term debt for approximately $12.9 million.

e) SWA had an overstatement in construction in progress for approximately $8.1 million.

f) PRTEC had an understatement of capital assets for approximately $2.1 million.

g) PRMBA had an overstatement of accounts receivable and non-operating revenue of approximately $1.2 million.

h) PRTC had an overstatement of approximately $750 thousand in capital assets due to an impairment loss not recognized in previous years; Interest payable was overstated by approximately $334 thousand because it was calculated based on amounts subsequently paid and not based on amounts incurred at year end; and, the investment in tourism projects were overstated by approximately $778 thousand due to the capitalization of certain incentive tax credits that were deemed not realizable.

i) ETEC had an overstatement of approximately $788 thousand in deferred revenue, and an understatement of capital assets for approximately $50 thousand.

j) IPRC had an understatement of voluntary termination benefits for approximately $520 thousand.

k) PRSPA and LRA restated their beginning net position to correct various errors in the aggregated amount of approximately $341 thousand and $292 thousand, respectively.

(4) Puerto Rico Government Investment Trust Fund (PRGITF)

PRGITF was created by Act No. 176, of August 11, 1995, and began operations on December 4, 1995. The PRGITF is a no load diversified collective investment trust administered by the GDB that was created for the purpose of providing eligible governmental investors of Puerto Rico with a convenient and economical way to invest in a professionally managed money market portfolio. The PRGITF is not an investment company or a mutual fund and is not subject to regulation or registration under the investment company Act of 1940. Units issued by the PRGITF are not subject to regulation or registration under the Securities and Exchange Act of 1933, as amended, because the units are issued by a government entity. The deposits on hand and the investments purchased are not collateralized, secured, or guaranteed by the Commonwealth or any of its agencies, instrumentalities, or political subdivisions.

PRGITF is considered a 2a7-like external investment pool, and as such, reports its investment at amortized cost. In addition, the Puerto Rico Government Investment Trust Fund follows GASB Statement No. 31; *Accounting and Financial Reporting for Certain Investments and for External Investments Pools*; however, such financial statements are not included in the accompanying basic financial statements because the

primary government and each component unit's investor already present their corresponding share of the assets of the PRGITF as cash equivalents or investments.

The investment securities on hand at June 30, 2013, consisted of certificates of deposit and time deposits, money market funds, securities purchased under agreements to resell, corporate obligations, commercial paper, and U.S. government and sponsored agencies obligations, all of which may be considered highly liquid. However, the participants' investments are subject to the ability of the PRGITF to receive payment from the securities' issuer when due. The liquidity of certain investments and changes in interest rates may affect PRGITF's yield and the fair value of its investments.

The Commonwealth classified approximately $88.3 million of investments presented in the PRGITF (see note 5) as cash and cash equivalents. Investments in the PRGITF with original maturity of 90 days or less from the date of acquisition are considered to be cash equivalents.

The dollar amount of the investments at June 30, 2013 at $1.00 per unit of participation was reported in the individual financial statements of each of the participants, and combined in the basic financial statements as follows (expressed in thousands):

		Balance outstanding	Percentage of total
Primary government:			
Commonwealth	$	88,021	29.26%
COFINA		35,433	11.78
The Children's Trust		17,629	5.86
PBA		308	0.10
Total for primary government		141,391	47.00
Discretely presented component units:			
GDB		118,862	39.52
PRASA		35,035	11.65
SIFC		1,039	0.34
SWA		623	0.21
PRHTA		171	0.06
PREPA		19	0.01
Total for discretely presented component units		155,749	51.79
Other governmental entities		3,646	1.21
Total for all participants	$	300,786	100.00%

The deposits at June 30, 2013 were invested in securities with a cost that approximates fair value, plus accrued interest, for approximately $300.2 million. The external portion of the PRGITF was not considered significant for separate reporting in the accompanying basic financial statements.

As June 30, 2013, the PRGITF's investments were rated A1 or AAA by Standard and Poor's. U.S. government securities carry the explicit guarantee of the U.S. government.

Following is a table of the investments held by the PRGITF at June 30, 2013, presented at amortized cost (expressed in thousands):

Securities purchased under agreements to resell	$	97,461
Commercial paper		92,956
U.S. government and sponsored agencies obligations		80,514
Certificates of deposit and time deposits		14,850
Money market		12,412
Corporate obligations		4,510
Total	$	302,703

(5) Deposits and Investments

Pursuant to the provisions of Act No. 91 of March 29, 2004, the primary government may invest in different types of securities, including domestic, international, and fixed income securities, among others.

The primary government maintains a cash and investment pool that is available for use by all funds, except for the fiduciary funds. Each fund's portion of this pool is reported on the statement of net position as cash and cash equivalents. The fiduciary funds' investments are held and managed separately from those of other primary government funds.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Commonwealth's deposit might not be recovered. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by banks in the Commonwealth's name. There is no formal policy for custodial credit risk for cash accounts opened with commercial banks outside of Puerto Rico.

Deposits in governmental banks represent the balance of interest and noninterest-bearing accounts in the GDB and EDB. The deposit liability at the GDB and the EDB is substantially related to deposits from other component units and of the Commonwealth.

Deposits maintained in GDB, the EDB, and non-Puerto Rico commercial banks are exempt from the collateral requirement established by the Commonwealth and thus represent a custodial credit risk, because in the event that these financial institutions fail, the Commonwealth may not be able to recover these deposits.

Primary Government

Cash and cash equivalents consist of demand deposits, interest-bearing accounts, certificates of deposit, and bank investment contracts.

The carrying amount of deposits of the primary government at June 30, 2013 consists of the following (expressed in thousands):

	Carrying amount			Bank
	Unrestricted	Restricted	Total	balance
Commercial banks	$ 399,465	633,100	1,032,565	1,014,144
Governmental banks	1,350,816	367,728	1,718,544	2,045,287
Under the Custody of the U.S. Treasury	—	398,059	398,059	398,030
Total	$ 1,750,281	1,398,887	3,149,168	3,457,461

At year-end, the Commonwealth's bank balance of deposits in commercial banks amounting to approximately $1 billion was covered by federal depository insurance and by collateral held by the Commonwealth's agent in the Commonwealth's name. Deposits of approximately $398 million with the U.S. Treasury represent unemployment insurance taxes collected from employers that are transferred to the federal Unemployment Insurance Trust Fund in the U.S. Treasury. These deposits are uninsured and uncollateralized. The bank balance of deposits in governmental banks, which as of June 30, 2013 amounted to approximately $2 billion, is also uninsured and uncollateralized.

The bank balance of GDB's and EDB's deposits at June 30, 2013 is broken down as follows (expressed in thousands):

Primary government	$ 2,045,287
Discretely presented components units	909,119
Total pertaining to the Commonwealth	2,954,406
Municipalities of Puerto Rico	527,978
Other nongovernmental entities	42,708
Escrow accounts	644,869
Certificates of deposit	1,737,026
Total deposits per GDB and EDB	$ 5,906,987

The primary government classified approximately $88.3 million of investments in the PRGITF as cash equivalents.

Investments

Custodial Risk – Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the transaction, the Commonwealth may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Credit Risk – This is the risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation. Investors are compensated for assuming credit risk by way of interest payments from the borrower or issuer of a debt obligation. Credit risk is closely tied to the potential return of an investment, the most notable being that the yields on bonds correlate strongly to their perceived credit risk.

The Commonwealth's general investment policy is to apply the "prudent investor" rule, that states investments shall be made with judgment and care under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment considering the probable safety of their capital as well as the probable income to be derived. The prudent investor rule should be applied in the context of managing an overall portfolio.

Short term funds of the agencies, including operating funds, may be invested in US. Treasury bills; U.S. Treasury notes or bonds with short term maturities; short-term obligations of U.S. government agencies and instrumentalities classified within the highest rating category of S&P and Moody's; fully insured or collateralized certificates of deposit of eligible financial institutions designated by the Commissioner of Financial Institutions and the Secretary of the Treasury of the Commonwealth; Prime commercial paper rated A1/P1 by S&P and Moody's or secured by an irrevocable line of credit of an institution rated within the highest rating category of S&P and Moody's or collateralized by government securities; bankers' acceptances (as alternatives to CDs) of eligible financial institutions doing business in Puerto Rico provided adequate collateral has been pledged; the PRGITF; obligations of the Commonwealth and its instrumentalities with an expected rate of return similar to other securities with the same risk profile.

Longer-term funds of the agencies may also be invested in U.S. government and agency securities rated in the highest rating category of S&P and Moody's. Taxable Municipal Bonds of state and local governments in the United States classified within the three (3) highest categories of at least two of the principal rating services; taxable municipal obligations of the Primary Government and its component units; Structured Investments (notes and other types of on-balance sheet securities issued by a U.S. Government Agency or another financial institutions that are classified in the highest rating category of at least two of the principal rating services); any mortgage-backed instrument issued by a U.S. Government Agency rated in the highest rating category of S&P and Moody's as a separate Trust.

Concentration of Credit Risk – This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Commonwealth policy on larger portfolios with positions in securities having potential default risk is to limit the investments in size so that in case of default, the portfolio's annual investment income will exceed a loss on a single issuer's securities.

Interest Rate Risk – It is the Commonwealth policy that a minimum 10% of total portfolio be held in highly marketable U.S. Treasury bills or overnight investment instruments. Larger portfolios should not hold more than 30% of the portfolio in marketable instruments with maturities beyond one month. This policy should be followed as long as it doesn't reduce investment yields.

Governmental Activities:

The governmental activities had approximately $87.4 million in nonparticipating investment contracts (guaranteed investment contract) that were exposed to custodial risk as uninsured, unregistered and held by the counterparties or by their trust departments or agents, but not in the primary government's name.

The following table summarizes the type and maturities of investments held by the governmental activities at June 30, 2013 (expressed in thousands). Investments by type in any issuer representing 5% or more of total investments have been separately disclosed. Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

	Maturity (in years)			
Investment type	**Within one year**	**After one to five years**	**After ten years**	**Total**
U.S. government securities	$ 51,430	7,090	—	58,520
U.S. government sponsored agencies notes - Federal National Mortgage Association (FNMA)	317,420	—	—	317,420
U.S. corporate bonds and notes	31,011	—	—	31,011
Commonwealth bonds and notes	—	—	225,100	225,100
PRGITF	53,062	—	—	53,062
External investment pools – fixed-income securities:				
Dreyfus Government Cash Management	358,684	—	—	358,684
Deutsche Bank	—	—	26,413	26,413
Nonparticipating investment contracts:				
Bayerische Hypo-und Vereinsbank AG	—	—	83,684	83,684
Calyon	—	—	3,766	3,766
Total debt securities and fixed-income investment contracts	$ 811,607	7,090	338,963	1,157,660
Reconciliation to the government-wide statement of net position (deficit):				
Unrestricted investments				$ 369,942
Restricted investments				787,718
Total				$ 1,157,660

The credit quality ratings (Standard and Poor's) and fair value by investment type for the investments reported by the governmental activities at June 30, 2013 consist of the following (expressed in thousands):

		Rating		
Investment type	**AAA**	**AA+ to AA-**	**A+ to A-**	**Total**
U.S. government sponsored agencies notes - FNMA	$ —	317,420	—	317,420
U.S. corporate bonds and notes	—	—	31,011	31,011
Commonwealth bonds and notes	—	—	225,101	225,101
PRGITF	53,062	—	—	53,062
External investment pools – fixed-income securities:				
Dreyfus Government Cash Management	358,684	—	—	358,684
Deutsche Bank	—	—	26,413	26,413
Nonparticipating investment contracts:				
Bayerische Hypo-und	—	—	—	—
Vereinsbank AG	—	—	83,684	83,684
Calyon	—	—	3,766	3,766
Total debt securities and fixed-income investment contracts	$ 411,746	317,420	369,975	1,099,141

Approximately $58.5 million of the total governmental activities' investments consist of U.S. government securities, which carry no credit risk, therefore, not included within the table above.

Business Type Activities:

The following table summarizes the type and maturities of investments held by the business-type activities at June 30, 2013 (expressed in thousands). Investments by type in any issuer representing 5% or more of total investments have been separately disclosed. Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

Investment type		Maturity (In years) Within one year	After one to five years	After five to ten years	After ten years		Total
U.S. government and agency securities	$	—	461	2,865	761		4,087
Mortgage and asset-backed securities:							
Government National Mortgage Association (GNMA)		—	—	—	810		810
FNMA		—	—	42	1,899		1,941
Federal Home Loan Mortgage Corporation (FHLMC)		—	—	192	4,851		5,043
Commercial mortgages		—	—	—	1,499		1,499
Asset–backed securities		—	928	—	—		928
U.S. corporate bonds and notes		—	5,136	3,208	1,533		9,877
Foreign corporate and government bonds and notes		—	466	397	—		863
U.S. municipal notes		—	—	55	567		622
Negotiable certificates of deposit		12,180	—	—	—		12,180
Total debt securities	$	12,180	6,991	6,759	11,920		37,850
External investment pools — equity securities:							
SPDR S&P 500 ETF Trust							7,844
MFC ISHARES TR Russell 2000 index Fund							967
MFC Vanguard FTSE Emergency MKTS ETF							39
MFC Vanguard FTSE Development Markets							625
Total						$	47,325
Reconciliation to the government-wide statement of net position (deficit):							
Unrestricted investments						$	3,044
Restricted investments							44,281
Total						$	47,325

The credit quality ratings (Standard and Poor's) and fair value by investment type for the investments reported by the business-type activities at June 30, 2013 consist of the following (expressed in thousands):

Investment type		Rating AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	Not rated	Total
Mortgage and asset-backed securities:								
FNMA	$	—	1,941	—	—	—	—	1,941
FHLMC		—	5,043	—	—	—	—	5,043
Commercial mortgages		957	—	—	—	—	542	1,499
Asset-backed securities		190	—	—	—	—	738	928
U.S. corporate bonds and notes		131	963	5,740	2,473	570	—	9,877
Foreign corporate and government bonds and notes		—	232	202	349	80	—	863
U.S. municipal notes		202	365	55	—	—	—	622
Negotiable certificates of deposit		—	—	—	—	—	12,180	12,180
Total debt securities	$	1,480	8,544	5,997	2,822	650	13,460	32,953

Approximately $4.9 million of the total business-type activities' investments consist of U.S. government securities and mortgage-backed securities (GNMA), which carry no credit risk, therefore, not included within the table above.

Fiduciary Funds

Deposits and short-term investments

Cash and cash equivalents of the fiduciary funds at June 30, 2013 consist of the following (expressed in thousands):

		Carrying amount Unrestricted	Restricted	Total	Bank balance
Commercial banks	$	949,315	26,503	975,818	976,723
Governmental banks		573,881	35,811	609,692	532,072
Total	$	1,523,196	62,314	1,585,510	1,508,795

Cash and cash equivalents consist of deposits with commercial banks, deposits with the GDB and money market funds. Restricted cash deposited with the GDB consists of escrow servicing accounts for mortgage loans administrated by the mortgage servicers and expired checks not claimed by the plan members, restricted for repayments.

Collateral for securities lending transactions of the pension trust funds amounting to approximately $174.8 million were invested in short-term investment funds sponsored by the pension trust funds' custodian bank. (See note 6).

Custodial Risk – As of June 30, 2013, the fiduciary funds had approximately $1,014 million of cash and cash equivalents and collateral from securities lending transactions which were exposed to custodial credit risk as uninsured and uncollateralized. Cash collaterals received from securities lending transactions invested in short-term investment funds sponsored by the pension trust funds' custodian bank are also

exempt from compliance with the collateralization requirement.

Investments

The following table summarizes the type and maturities of investments held by the pension trust funds at June 30, 2013 (expressed in thousands). Investments by type in any issuer representing 5% or more of total investments have been separately disclosed. Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

Investment type	Maturity (In years) Within one year	After one to five years	After five to ten years	After ten years	Total
U.S. government securities:					
U.S. Treasury notes	$ 56,464	2,064	20,004	—	78,532
U.S. Treasury note strips	—	—	65,067	—	65,067
U.S. Treasury Inflaction-Protected Securities (TIPS)	—	3,645	27,033	3,109	33,787
U.S. government sponsored agencies notes:					
Federal Home Loan Bank (FHLB)	—	14,092	5,897	—	19,989
FNMA	—	2,783	2,356	—	5,139
FHLMC	606	9,057	6,693	—	16,356
Federal Farm Credit Bank (FFCB)	—	4,176	1,547	—	5,723
Mortgage and asset–backed securities:					
GNMA	—	72	—	22,886	22,958
FNMA	—	234	1,008	31,304	32,546
FHLMC	—	—	245	24,763	25,008
Collateralized mortgage obligations (CMO)	8	—	—	935	943
Commercial mortgages	—	—	—	23,599	23,599
Asset–backed securities	—	2,265	—	40	2,305
U.S. corporate bonds and notes	118,491	601,329	473,228	66,979	1,260,027
Non U.S. corporate bonds and notes	23,065	131,323	97,059	9,916	261,363
Foreign government bonds and notes	—	5,937	5,879	1,836	13,652
U.S. municipal bonds and notes	—	589	6,017	3,025	9,631
Commonwealth bonds	—	985	—	—	985
GDB bonds	—	4,587	—	—	4,587
COFINA bonds	—	—	—	229,819	229,819
Total bonds and notes	198,634	783,138	712,033	418,211	2,112,016
Nonexchange commingled trust funds:					
Fixed income fund- SSgA Intermediate Fund:					
U.S.	—	211,649	—	—	211,649
Non-U.S.	—	104,637	—	—	104,637
Total bonds and notes and nonexchange commingled fixed-income trust funds	$ 198,634	1,099,424	712,033	418,211	2,428,302
Stocks and equity and other nonexchange commingled trust funds:					
U.S. corporate stock					2,959
Non U.S. corporate stock					94,415
Nonexchange commingled trust funds:					
Equity and other funds:					
U.S.- SSgA Russell 3000 Fund					1,005,616
U.S.- SSgA S&P 500 Fund					25,937
Non-U.S.- SSgA MSCI ACWI Ex USA Fund					292,152
Total stocks and equity and other nonexchange commingled trust funds					1,421,079
Investments in limited partnerships					69,890
Totals					$ 3,919,271

The pension trust fund's investments are exposed to custodial credit risk, credit risk, concentration of credit risk, foreign currency risk, and interest rate risk. Following is a description of these risks as of June 30, 2013:

Custodial Risk – At June 30, 2013, securities investments were registered in the name of the pension trust fund and were held in the possession of the pension trust fund's custodian banks, State Street Bank and Trust and Bank of New York Mellon, except for securities lent (see note 6).

Credit Risk – All fixed-income securities at the time of purchase must be of investment grade quality. All issuances shall be rated investment grade by at least two of the nationally recognized rating agencies. The portfolio is expected to maintain a minimum weighted average credit quality of either "A" or better using either Standard and Poor's or Moody's Investor Service credit ratings. TRS's investment guidelines prohibit the investments in securities with expected maturity dates beyond 30 years. Positions that drift below investment grade should be reported to a management representative of the TRS and monitored carefully. The TRS portfolio is not expected to have more than 5% invested in securities that have drifted after purchase below investment-grade quality. The JRS investment policy limits the investment in corporate debt securities to the top ratings issued by nationally recognized statistical rating organizations. The credit quality ratings for investments held by the pension trust funds at June 30, 2013 are as follows (expressed in thousands):

	Rating (1)								
Investment type	**AAA**	**AA+ to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to BB-**	**B**	**CCC**	**Not Rated**	**Total**
Bonds and notes:									
U.S. government agencies obliations:									
FHLB	$ —	19,989	—	—	—	—	—	—	19,989
FNMA	—	5,139	—	—	—	—	—	—	5,139
FHLMC	—	16,356	—	—	—	—	—	—	16,356
FFCB	—	5,723	—	—	—	—	—	—	5,723
Mortgage and asset-backed securities:									
FNMA	—	32,546	—	—	—	—	—	—	32,546
FHLMC	—	25,008	—	—	—	—	—	—	25,008
Other collateralized mortgage obligations	56	387	—	—	99	—	401	—	943
Commercial mortgages	23,599	—	—	—	—	—	—	—	23,599
Asset-backed securities	2,265	—	—	—	—	40	—	—	2,305
U.S. corporate bonds and notes	15,294	151,667	604,060	432,424	51,309	—	—	5,273	1,260,027
Non U.S. corporate bonds	—	46,579	123,838	69,392	9,479	—	—	12,075	261,363
Foreign government bonds and notes	—	10,741	1,075	—	1,836	—	—	—	13,652
U.S. municipal bonds	3,025	3,262	3,344	—	—	—	—	—	9,631
Commonwealth bonds	—	—	—	985	—	—	—	—	985
GDB bonds	—	—	—	4,587	—	—	—	—	4,587
COFINA bonds	—	—	229,819	—	—	—	—	—	229,819
Total bonds and notes	44,239	317,397	962,136	507,388	62,723	40	401	17,348	1,911,672
Nonexchange commingled trust funds:									
Fixed Income fund - SSgA Intermediate Fund	38,333	37,765	123,795	116,393	—	—	—	—	316,286
Total debt securities and fixed-income nonexchange commingled trust fund	$ 82,572	355,162	1,085,931	623,781	62,723	40	401	17,348	2,227,958

(1) Rating obtained from Standard & Poor's or equivalent rating by Moody's Investor Service or Fitch Ratings.

Approximately $200.3 million of the total fiduciary funds investments consist of U.S. government securities and mortgage-backed securities (GNMAs), which carry no risk, therefore, not included within the table above.

Concentration of Credit Risk – No ERS and JRS investment in marketable securities in any organization represents 5% or more of ERS and JRS net assets held in trust for pension benefits. There are no TRS investments in any one issuer that represent 5% or more of total investments as of June 30, 2013. The TRS investment guidelines specify that no more than 5% of a manager's assets at market shall be invested in the securities of any single issuer.

The pension trust funds invest in shares of the following State Street Global Advisor equity funds: SSgA S&P 500 Flagship Securities Lending Fund (the SSgA S&P 500 Fund), the SSgA Russell 3000 Index Non-Lending Fund (the SSgA Russell 3000 Fund) and the SSgA MSCI ACWI Ex USA Non-Lending Fund (the SSgA MSCI ACWI Ex USA Fund). The investment objectives of the SSgA S&P 500 Fund, the SSgA Russell 3000 Fund and the SSgA MSCI ACWI Ex USA Fund are to match the return of the Standard & Poor's 500 Index, the Russell 3000 Index and the MSCI ACWI Ex USA Index, respectively, over the long-term. Shares of the SSgA S&P 500 Fund and of the SSgA Russell 3000 Fund can be redeemed on a daily basis at net asset value (NAV) and have no redemption restrictions. Shares of the SSgA MSCI ACWI Ex USA Fund can be redeemed semi-monthly at NAV and have no redemption restrictions. The pension trust funds' investment in these funds is included as part of nonexchange commingled trust funds.

As of June 30, 2013, the investments underlying the SSgA S&P 500 Fund, the SSgA Russell 3000 Fund and the SSgA MSCI ACWI Ex USA Fund had the following sector allocations:

Sector	SSgA S&P 500 Fund	SSgA Russell 3000 Fund	SSgA MSCI ACWI Ex USA Fund
Financials	17%	18%	26%
Information technology	18	17	7
Healthcare	13	12	8
Consumer discretionary	12	13	10
Energy	11	10	9
Consumer staples	10	9	11
Industrials	10	11	11
Materials	3	4	9
Utilities	3	3	3
Telecommunication services	3	3	6
Total	100%	100%	100%

In addition, the pension trust funds invest in shares of the State Street Global Advisor Intermediate Credit Index Non-Lending Fund (the SSgA Intermediate Fund). The investment objective of the SSgA Intermediate Fund is to replicate the Barclays U.S. Intermediate Credit Bond Index over a long-term by investing exclusively in fixed income securities. Shares of the SSgA Intermediate Fund can be redeemed on a daily basis at their NAV and have no redemption restrictions. The pension trust funds' investment in the SSgA Intermediate Fund is included as part of nonexchange commingled trust funds.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2013

As of June 30, 2013, the investments underlying the SSgA Intermediate Fund had the following sector allocations:

Sector	Percentage
Corporate- Industrial	42%
Corporate- Finance	30
Corporate- Utility	6
Noncorporates	20
Cash	2
Total	100%

As of June 30, 2013, the composition of the underlying investments in the SSgA MSCI ACWI Ex USA Fund and in the SSgA Intermediate Fund by country was as follows:

Country	SSgA MSCI ACWI Ex USA Fund	SSgA Intermediate Fund
Germany	6%	4%
Spain	2%	-
France	7%	1%
United Kingdom	15%	3%
Netherlands	2%	-
Sweden	2%	-
Italy	1%	-
Switzerland	7%	-
Australia	6%	2%
China	4%	-
Japan	16%	1%
Korea	3%	-
Hong Kong	2%	-
Singapore	1%	-
Taiwan	3%	-
Canada	7%	5%
Mexico	1%	1%
Brazil	3%	2%
India	2%	-
Russia	1%	-
South Africa	2%	-
U.S.	-	67%
Other	7%	14%
Total	100%	100%

(Continued)

Interest Rate Risk – In accordance with their investment policy, ERS and JRS manage their exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for benefit payments, thereby avoiding the need to sell securities on the open market prior to maturity. The Pension Trust Fund is expected to achieve capital preservation and income generation by investing in a diversified portfolio of marketable investment-grade core fixed-income securities. The TRS investment guidelines specify that the duration of the portfolio is expected to vary no more than between 75% and 125% of the duration of the respective benchmark.

As of June 30, 2013, investment maturities as a percentage of total debt securities and fixed-income nonexchange traded mutual funds are as follows:

Maturity	Maximum maturity
Within one year	8%
After one year to five years	46
After five years to ten years	29
After ten years	17
Total	100%

Foreign Currency Risk – This is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The TRS international portfolio is expected to achieve long-term and aggressive capital appreciation by investing in Core EAFE (Europe Australasia and the Far East) securities. The portfolio is expected to be broadly diversified with respect to exposures to countries, economic sectors, industries, and individual stock. No single issue is expected to exceed 5% (at market) of the portfolio.

The TRS's investments and deposits exposed to foreign currency risk as of June 30, 2013, are as follows:

Investment type	Local currency	Fair value (in thousands)
Cash and cash equivalents	Australian Dollar	$ 21
Cash and cash equivalents	Euro	555
Cash and cash equivalents	Japanese Yen	47
Cash and cash equivalents	British Sterling Pound	4
Cash and cash equivalents	Singapore Dollar	7
Total cash and cash equivalents		634
Common stock	Australian Dollar	7,297
Common stock	British Sterling Pound	21,382
Common stock	Danish Krone	4,314
Common stock	Euro	12,411
Common stock	Hong Kong Dollar	3,756
Common stock	Japanese Yen	16,217
Common stock	New Zealand Dollar	1,403
Common stock	South Africa Rand	787
Common stock	Singapore Dollar	1,345
Common stock	South Korean Won	1,015
Common stock	Swedish Krona	8,048
Common stock	Swiss Franc	9,534
Common stock	Turkish Lira	906
Total common stock		88,415
Nonexchange commingled trust funds - Ssga MCSI ACWI Ex USA		292,152
Total cash and cash equivalents and securities exposed to foreign currency risk		$ 381,201

Investments in Limited Partnerships

Pursuant to the Statement of Investment Guidelines for the Government of Puerto Rico, the pension trust funds invested approximately $1.4 million in limited partnerships during the year ended June 30, 2013.

The fair value of investments in limited partnerships at June 30, 2013 amounted to approximately $69.0 million. The allocations of net gains and losses to limited partners are based on certain percentages, as established in the limited partnership agreements. Investments in limited partnerships are not rated by a nationally recognized statistical rating organization. The related credit risk is measured through credit analysis, periodic reviews of results of operations, and meetings of subject companies' management.

As of June 30, 2013, the pension trust funds had capital commitments with limited partnerships and related contributions as follows (expressed in thousands):

	Public sector commitments	Fiscal year contributions	Cumulative contributions	Fair value
Guayacán Fund of Funds, L.P.:				
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	$ 25,000	—	23,820	1,250
Puerto Rico System of Annuities and Pensions for Teachers	20,000	—	19,056	1,000
Subtotal	45,000	—	42,876	2,250
Guayacán Fund of Funds II, L.P.:				
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	25,000	—	23,681	4,529
Puerto Rico System of Annuities and Pensions for Teachers	25,000	—	23,681	4,529
Subtotal	50,000	—	47,362	9,058
Guayacán Private Equity Fund, L.P.				
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	5,000	—	4,645	3,414
Puerto Rico System of Annuities and Pensions for Teachers	5,000	—	4,645	3,512
Subtotal	10,000	—	9,290	6,926
Guayacán Private Equity Fund II, L.P.:				
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	25,000	—	19,030	20,460
Subtotal	25,000	—	19,030	20,460
Other Funds:				
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico	47,596	1,324	47,127	25,414
Puerto Rico System of Annuities and Pensions for Teachers	28,714	45	26,498	5,782
Subtotal	76,310	1,369	73,625	31,196
Total	$ 206,310	1,369	192,183	69,890

Component Units

Deposits

Cash and cash equivalents consist of demand deposits, interest-bearing accounts, certificates of deposit, and bank investment contracts. Cash and cash equivalents of the component units at June 30, 2013 consist of (expressed in thousands):

	Carrying amount			
	Unrestricted	Restricted	Total	Bank balance
Commercial banks	$ 1,457,618	959,144	2,416,762	2,354,084
Governmental banks	303,708	388,618	692,326	741,678
Total	$ 1,761,326	1,347,762	3,109,088	3,095,762

As of June 30, 2013, the component units had approximately $742 thousands of cash and cash equivalents that were exposed to custodial credit risk as uninsured and uncollateralized.

Investments

Credit Risk – In addition to the investments permitted for the Primary Government, the component units' investment policies allow management to invest in: certificates of deposit or Euro notes issued by financial institutions in the U.S. in which the issuer is classified in the highest rating category for short term obligations and in the two highest for long term obligations as classified by S&P and Moody's: corporate notes and bonds classified in the highest categories of at least two of the principal rating services; taxable corporate debt issued through AFICA and CARIFA within the two (2) highest categories of at least two of the principal rating services; trust certificates (Subject to prior written consultation with the GDB), Mortgage and Asset Backed Securities rated AAA by Standard & Poor's or Aaa by Moody's that shall not exceed 5 percent of the underlying Trust at any time.

The component units' investment policies establish limitations and other guidelines on amounts to be invested in the aforementioned investment categories and by issuer/counterparty and on exposure by country. In addition, such policies provide guidelines on the institutions with which investment transactions can be entered into.

The component units' investment policies provide that investments transactions shall be entered into with counterparties that are rated BBB+/A-1 or better by the Standard & Poor's or equivalent rating by Fitch Ratings or Moody's Investors Service, depending on the type and maturity of the investment and the counterparty to the transaction.

Concentration of credit risk – In addition, the investment policy specifies that no more than 5% of a manager's assets at fair value shall be invested in the securities of any single issuer.

The following table summarizes the type and maturities of investments held by the component units at June 30, 2013 (expressed in thousands). Investments by type in any issuer representing 5% or more of total investments have been separately disclosed. Expected maturities will differ from contractual maturities, because counterparties may have the right to call or prepay obligations with or without call or prepayment penalties.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2013

	Maturity (In years)				
Investment type	**Within one year**	**After one to five years**	**After five to ten years**	**After ten years**	**Total**
U.S. government securities	$ 293,562	197,827	107,308	98,492	697,189
U.S. government sponsored agencies notes:					
FHLB	60,407	316,139	114,362	—	490,908
FNMA	11,435	281,347	383,695	153,782	830,259
FHLMC	3,478	230,303	142,354	2,427	378,562
FFCB	12,790	80,302	50,254	715	144,061
Other	5,025	3,450	2,793	913	12,181
Mortgage and asset–backed securities:					
GNMA	144	27,564	13,630	173,598	214,936
FNMA	15,887	39,154	19,791	856,382	931,214
FHLMC	979	42,464	4,813	302,742	350,998
Commercial mortgages	—	14,548	313	37,770	52,631
Asset–backed securities	—	21,584	9,148	418	31,150
Other	1,282	5,246	370	85,628	92,526
U.S. corporate bonds and notes	202,023	694,405	188,119	61,575	1,146,122
Foreign government bonds and notes	2,293	23,928	35,462	1,917	63,600
U.S. municipal notes	20,485	74,862	77,955	595,776	769,078
Commonwealth agency bonds and notes	257,057	383,435	276,009	206,767	1,123,268
Money market funds	80,407	—	—	57,330	137,737
Negotiable certificates of deposit	42,864	2,000	—	—	44,864
PRGITF	1,039	118,862	—	—	119,901
External investment pools – fixed–income securities	128,145	400	—	6,476	135,021
Nonparticipating investment contracts	—	—	15,863	303,951	319,814
Others	6,509	2,410	634	10,756	20,309
Total debt securities and fixed–income investment contracts	$ 1,145,811	2,560,230	1,442,873	2,957,415	8,106,329
Equity securities:					
U.S. corporate stocks					443,623
Non U.S. corporate stocks					4,105
External investment pools – equity securities					107,650
Limited partnership/private equity					94,049
Total					8,755,756
Reconciliation to the government-wide statement of net position (deficit):					
Unrestricted investments					4,723,236
Restricted investments					4,032,520
Total					$ 8,755,756

Certain component units classified approximately $35.0 million of investments presented in the PRGITF as cash equivalents.

Custodial Credit Risk – The component units had approximately $251 million in various types of U.S. government and agency securities, mortgage-backed securities and other investments that were exposed to custodial credit risk as uninsured, unregistered, and held by the counterparties or by their trust departments or agents, but not in the component units' name.

Foreign Currency Risk – SIFC limits its exposure to foreign currency risk by limiting the total amount invested to 5% of the portfolio. As of June 30, 2013, the SIFC had the following investments denominated in foreign currency (expressed in thousands):

Description	Currency		Fair value
Common stock	Australian Dollar	$	4,983
	British Pound		7,150
	Canadian Dollar		1,669
	DKK		585
	Euro		12,080
	Hong Kong Dollar		1,359
	Japanese Yen		16,549
	Norwegian Krona		1,981
	Swiss Franc		6,356
	Swedish Krona		470
	Singapore Dollar		1,037
Preferred stock – government bonds:	Euro		1,402
Government bonds	Euro		3,488
Total		$	59,109

Subsequent Downgrades in Credit Ratings of Commonwealth's Bonds

As explained in note 22 during February 2014, several bonds of the Commonwealth and its instrumentalities were downgraded between one and two notches by the principal credit rating agencies in the United States. However, none of the downgrades went below the BBB- ratings under S&P standards, and most of the existing investments in the tables above were not affected, as in general terms, the investment policies of the Commonwealth require its agencies and instrumentalities to maintain their investment portfolios of debt securities with investment grade ratings. With over 99% and 77% of the investments at the primary government and component unit level, respectively, with credit ratings no lower than A- at June 30, 2013, overall average credit ratings on the entire investment portfolio have remained within the Commonwealth's required investment policies, even after the February 2014 downgrades.

(6) Securities Lending and Repurchase Agreement Transactions

During the year, the pension trust funds, included within the fiduciary funds; the Government Development Bank for Puerto Rico (GDB), the Economic Development Bank (EDB), and the State Insurance Fund Corporation (SIFC), discretely presented component units, entered into securities lending and securities sold with agreements to repurchase transactions. These transactions are explained below:

Pension Trust Funds

The Retirement System participates in a securities lending program, whereby securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, government securities, and/or irrevocable bank letters of credit equal to approximately 102% of the fair value of the domestic securities on loan and 105% of the fair value of the international securities on loan, with a simultaneous agreement to return the collateral for the same securities in the future. Collateral is marked to market daily, and the agent places a request for additional collateral from brokers, if needed. The custodian bank is the agent for the securities lending program.

At year end, the Retirement System has no credit risk exposure to borrowers because the amounts the Retirement System owes the borrowers (the collateral) exceeded the amounts the borrowers owe the Retirement System. At June 30, 2013, the collateral received represented 102% of the fair value of the domestic securities lent.

The securities on loan for which collateral was received as of June 30, 2013, consisted of the following (expressed in thousands):

Description		Fair value of underlying securities
U.S. government securities:		
U.S. Treasury bill	$	1,000
U.S. Treasury notes		21,795
U.S. Treasury note strips		64,970
U.S. Treasury Inflaction-Proctected Securities (TIPS)		10,363
U.S. government sponsored`agencies notes:		
FHLB		7,749
FNMA		2,744
FHLMC		7,775
FFCB		1,024
U.S. corporate bonds and notes		47,681
Non U.S. corporate bonds and notes		2,861
U.S. corporate stock		244
Non U.S. corporate stock		2,467
Total	$	170,673

The underlying collateral for these securities had a fair value of approximately $174.8 million as of June 30, 2013. The collateral received was invested in a short term investment fund sponsored by the custodian bank and is presented as collateral from securities lending transactions in the accompanying statement of fiduciary net position.

As of June 30, 2013, the distribution of the short-term investment fund by investment type is as follows expressed in thousands):

Investment type		Fair value of underlying securities
Securities bought under agreements to resell	$	172,831
Commercial paper		1,101
Certificates of deposit		901
Total	$	174,833

Under the terms of the securities lending agreement, the Retirement System is fully indemnified against failure of the borrowers to return the loaned securities (to the extent the collateral is inadequate to replace the loaned securities) or failure to pay the Retirement System for income distributions by the securities' issuers while the securities are on loan. In addition, the Retirement System is indemnified against loss should the lending agent fail to demand adequate and appropriate collateral on a timely basis.

Component Units

GDB – The following is selected information concerning securities sold under agreements to repurchase (expressed in thousands):

Carrying amount at June 30, 2013	$	634,301
Maximum amount outstanding at any month-end		1,359,397
Average amount outstanding during the year		801,513
Weighted average interest rate for the year		0.54%
Weighted average interest rate at year-end		0.15%

The following summarizes the activity of securities sold under agreements to repurchase for the year ended June 30, 2013 (expressed in thousands):

		Beginning balance	Issuances	Maturities	Ending balance	Within one year
GDB Operating Fund	$	884,484	30,009,621	(30,259,804)	634,301	—

All sales of investments under agreements to repurchase are for fixed terms. In investing the proceeds of securities sold under agreements to repurchase, GDB's policy is for the term to maturity of investments to be on or before the maturity of the related repurchase agreements. At June 30, 2013, the total amount of securities sold under agreements to repurchase mature within one year.

EDB – EDB's investment policies, as authorized by Act number 22 of July 24, 1985, Article 3, allow management to sell securities under agreements to repurchase. The following table summarizes certain information on securities sold under agreements to repurchase (expressed in thousands):

Carrying amount at June 30, 2013	$	76,200
Average amount outstanding during the year		113,889
Maximum amount outstanding at any month-end		268,739
Weighted average interest rate for the year		1.42%
Weighted average interest rate at year-end		1.40%

As of June 30, 2013, securities sold under agreements to repurchase were collateralized with mortgage-backed securities, other government agencies securities, and other investments with a market value of $81.1 million.

The activity for securities sold under agreements to repurchase during 2013 was as follows (expressed in thousands):

	Beginning balance	Issuances	Maturities	Ending balance	Within one year
Securities sold under agreements to repurchase	$ 123,925	610,079	(657,804)	76,200	—

SIFC – The Commonwealth statutes and the SIFC's board of directors' policies permit the SIFC to use its investments to enter into securities lending transactions, whereby securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, securities and/or irrevocable bank letter of credit. The SIFC's securities custodian, JP Morgan Chase Bank, N.A., as agent of the SIFC, manages the securities lending program and receives cash collateral, securities or irrevocable bank letters of credit as collateral. The collateral securities cannot be pledged or sold by the SIFC unless the borrower defaults. The collateral requirement is equal to 102% for securities issued in the United States of America and 105% for securities issued outside of the United States of America, of the fair value of the securities lent. Additional collateral has to be provided by the next business day if it's fair value falls to less than 100% of the fair value of the securities lent. All security loans can be terminated on demand by either the SIFC or the borrower. In lending securities, the term to maturity of the securities loans is matched with the term to maturity of the investment of the cash collateral. Such matching existed at year-end. At year end, the SIFC has no credit risk exposure to borrowers because the amounts the SIFC owes the borrowers exceed the amounts the borrowers owe SIFC. Contracts with the lending agents require them to indemnify the SIFC if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the SIFC for income distributions by the securities' issuers while the securities are on loan.

Securities lent as of June 30, 2013 had a fair value of $231.6 million and were secured with collateral received with a fair value of $236.7 million. Securities lent for which cash was received as collateral as of June 30, 2013 consist of the following (expressed in thousands):

Description		Fair value of underlying securities
Corporate bonds and notes	$	34,648
Equity securities		44,783
U.S. sponsored agencies bonds and notes		6,561
U.S. Treasury notes and bonds		14,424
	$	100,416

Cash collateral received as of June 30, 2013 amounted to $102.7 million and was invested as follows (expressed in thousands):

Description		Fair value of underlying securities
Resell agreements	$	63,079
Commercial paper		13,106
Certificates of deposit with other banks		26,504
	$	102,689

In addition, the SIFC had the following lending obligations as of June 30, 2013 for which securities were received as collateral (expressed in thousands):

		Fair value	
Description		Securities lent	Investment collateral received
U.S. Treasury bonds and notes	$	120,154	122,672
U.S. Treasury bills		1,200	1,243
Corporate bonds and notes		2,949	3,114
U.S. sponsored agencies bonds and notes		6,833	6,985
	$	131,136	134,014

(7) Receivables and Payables

Governmental and Business – Type Activities

Receivables in the governmental funds include approximately $1.2 billion of accrued income, excise and sales and use taxes. Intergovernmental receivables include approximately $340.8 million from the federal government and $31 million from CRIM. In addition, the enterprise funds include $64.9 million of unemployment, disability, and drivers' insurance premium receivables; and approximately $35.0 million receivable from private citizens, member institutions and municipalities for patient services provided by the Puerto Rico Medical Services Administration. Payables in the governmental funds include approximately $1.2 billion of trade accounts due to suppliers for purchase of merchandise and services rendered, approximately $410 million of salary related benefits owed to eligible police agents for annual salary increases, awards and other monetary benefits granted to them through several laws dating back to 1954, approximately $206 million of excess of outstanding checks over bank balance and $1.2 billion of tax refunds payable.

In accordance with GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issue*, as amended (the TB), a receivable of $42.3 million was recorded as other receivable in the government-wide financial statements for estimated shipments from January 1 to June 30, 2013, which will be applied to debt service upon collection. Additionally, the TB indicated that the trust designated as the TSA (the Children's Trust in the case of the Commonwealth) should recognize a liability

for the bonds payable and an expense (and liability if unpaid) in the same period in its stand-alone financial statements. The expense (and liability if unpaid) recognizes the contractual obligation to remit the proceeds of the bond sold to the settling government (the Commonwealth). Since the Children's Trust is reported as a blended component unit, the TB indicates these remittances should be reported as transfers into the fund receiving the proceeds and transfers out in the fund that accounts for the activities of the TSA. Since the Children's Trust has no contractual obligation, under its enabling legislation or elsewhere, to remit all bond proceeds or assets related to the TSA to the settling government (the Commonwealth), the Children's Trust has not recognized an expense and liability for unpaid proceeds from the bonds since it records the expense as amounts are disbursed as grants to its settling government (including its instrumentalities) or third parties.

Pension Trust Funds

Loans receivable from plan members are guaranteed by the contributions of plan members and by other sources, including mortgage deeds and any unrestricted amount remaining in the escrow funds. In addition, collections on loans receivable are received through payroll withholdings. For the year ended June 30, 2013, the maximum amount of loans to plan members for mortgage loans was $100,000, and $5,000 for personal and cultural trip loans. During the years ended June 30, 2013 and 2012, personal loans with principal balances amounting to approximately $88.1 million and $225.0 million, respectively, were sold to two financial institutions. As per servicing agreement, the ERS will be in charge of the servicing, administration and collection of loans and outstanding principal balances at the end of the closing date for a servicing fee of 2%.

The allowance for adjustments and losses in realization is considered a general allowance for all categories of loans and interest receivable, except mortgage loans, and also a specific allowance for the special collection project loans balances.

As of June 30, 2013, the composition of loans and interest receivable from plan members is summarized as follows (in thousands):

Loans receivable:		
Personal	$	790,473
Mortgage		307,026
Cultural trips		69,825
Total loans to plan members		1,167,324
Accrued interest receivable		39,681
Total loans and interest receivable from plan members		1,207,005
Less allowance for adjustments and losses in realization		(4,376)
Total loans and interest receivable from plan members – net	$	1,202,629

As of June 30, 2013, accounts receivable from employers, included within accounts receivable in the accompanying statement of fiduciary net position, consisted of the following (in thousands):

Early retirement programs	$	5,458
Special laws		42,749
Employer and employee contributions		71,383
Interest on late payments		11,443
Total accounts receivable from employers		131,033
Less allowance for doubtful accounts receivable		—
Accounts receivable from employers – net	$	131,033

According to Act No. 447, each employer must pay, on a monthly basis, the amounts corresponding to contributions and loan repayments, on or before the fifteenth day of the following month. After that date, interests are charged as established by the Pension Trust Fund.

The Commonwealth and many of its instrumentalities, which are the employers as it relates to the ERS, have been facing significant fiscal and economic challenges. Further, in recent months, the rating downgrade and widening of credit spreads for Puerto Rico's public sector debt, including public corporations, has put further strain on liquidity and sources of funding of the employers. Consequently, most of the receivables from employers are delinquent past established payment dates and/or installment plan due dates. In other instances, amounts past due have continued to be renegotiated to later dates.

Although certain measures have been taken to improve the collection of such receivables, the timing of collections from employers affects the liquidity needs of the ERS. Although management is of the opinion that all amounts from employers are collectible, should any such amounts become uncollectible in the future, this situation could ultimately affect the payment of benefits to members or repayment of the ERS's bonds payable.

As of June 30, 2013, accounts receivable from employers include amounts due from PRMeSA of approximately $18.3 million, as follow (in thousands):

Employer and employee contributions	$	7,663
Interest		10,630
Total accounts receivable from PRMeSA	$	18,293

On November 1, 2011, the PRMeSA and ERS entered into a payment plan agreement (the Agreement) for the repayment of a debt amounting to approximately $15.3 million, at such date, corresponding to fiscal year 2010-2011. Beginning on November 15, 2011, the agreement calls for sixty (60) monthly installments of $255,677 bearing no interest. Default payments of less than one year in default will bear interest at 9%, and 12% for those in excess of one year.

Future minimum payments for the next for (4) years are as follows:

Year		Amount
2014	$	3,068,124
2015		3,068,124
2016		3,068,124
2017		1,022,707
Total	$	10,227,079

Component Units – GDB

Loans to the Commonwealth, its agencies, and instrumentalities amounted to approximately $6.9 billion or 48% of the GDB's total assets as of June 30, 2013. These loans are expected to be collected from appropriations proceeds from bond issuances of, or revenues generated by, the Commonwealth, and/or its agencies and instrumentalities. The Commonwealth's recurring expenditures have exceeded its recurring revenues during the past thirteen years and its credit ratings have been lowered. In addition, many of the Commonwealth's agencies and instrumentalities have had losses from operations during the past years. The collectability of these loans may be affected by budgetary constraints, the fiscal situation, and the credit rating of the Commonwealth, its agencies and instrumentalities, and their ability to generate sufficient funds from taxes, charges and/or bond issuances. Continuance of and/or significant negative changes in these factors may affect the ability of the Commonwealth and its agencies and instrumentalities to repay their outstanding loan balances with the GDB and accordingly, may have an adverse impact on GDB's financial condition, liquidity, funding sources, and results of operations.

GDB's management believes that no losses will be incurred by the GDB with respect to principal and interest on most of its loans to the public sector (including municipalities) and, as a result, no allowance for loan losses is generally established for them. For public sector loans, excluding municipalities, GDB's management bases its position in that in the past, the Director of the Commonwealth's Office of Management and Budget (OMB) has included in the budget of the Commonwealth appropriations to assist the Commonwealth and certain of its agencies and instrumentalities requiring financial support in repaying their loans with the GDB. The Legislature of the Commonwealth (the Legislature) has approved these appropriations, and such practice is anticipated to continue in the future, subject to the new provisions of Act No. 24 of 2014, described in note 15(a). In addition, management's position is based on the fact that the GDB has been able to collect most of the loans to such public sector entities with proceeds of bonds or notes issued by the Commonwealth or its agencies and instrumentalities, including bonds issued by COFINA. These public corporations and the Commonwealth have never defaulted on their respective bonds. The GDB has, in the past, collected the outstanding principal and interest at the contractual rate on loans repaid from Commonwealth's appropriations, or bond or note proceeds. Accordingly, no allowance has been established in the case of public sector loans for any shortfall between the present value of the expected future cash flows and the recorded investments in the loans.

Although management of the GDB believes that no losses of principal and interest will be incurred by the GDB with respect to most loans outstanding to the public sector at June 30, 2013, there can be no assurance that the Director of the OMB will include amounts for loan repayments in the Commonwealths' budget, and that the Legislature will appropriate sufficient funds in the future to cover all amounts due to

the GDB by the Commonwealth or public sector entities requiring the Commonwealth's support, or that the proceeds from any future bond issuances by COFINA or certain public entities which have financed their capital improvement programs with the GDB, will be sufficient to cover the outstanding amount due to the GDB at June 30, 2013. In addition, the participation of certain public entities in the bond market has been delayed waiting for the credit rating of such entities to improve or for more favorable market conditions. Because of the relationship among the GDB, the public sector entities, the Director of the OMB, and the Legislature, the timing and amount of any financial assistance and bond proceeds to be used to repay certain public sector loans cannot be reasonably estimated by the GDB.

At June 30, 2013, loans to public corporations and agencies of the Commonwealth amounting to $6.9 billion are repayable from the following sources (in thousands):

		Amount
Repayment source:		
Proceeds from future bond issuances of public corporations	$	2,989,364
Operating revenues of public entities other than the Commonwealth		407,266
Legislative appropriations		3,475,032
Other		17,472
Total	$	6,889,134

Since one of GDB's principal functions is to provide financing to the Commonwealth and its instrumentalities, GDB's loan portfolio includes loans to various departments and agencies of the Commonwealth, to various public corporations, and to municipalities, which represent a significant portion of the GDB's assets. Loans to the Commonwealth and its departments and agencies typically include working capital lines of credit payable from short-term tax and revenue anticipation notes issued by the Commonwealth, interim financing of capital improvements payable from Commonwealth's general obligation bonds or revenue bonds issued by the corresponding agency and, in recent years, loans to finance the Commonwealth's budget deficit payable from COFINA, uncollected taxes and annual appropriations made by the Legislature of Puerto Rico.

At June 30, 2013, approximately $3.5 billion of the public sector loans are payable from legislative appropriations from, or future tax revenues of, the Commonwealth. Accordingly, the payment of these loans may be affected by budgetary constraints, the fiscal situation and the credit rating of the Commonwealth. Significant negative changes in these factors may have an adverse impact on GDB's financial condition. Since 2000, the Commonwealth's recurring expenditures have exceeded its recurring revenues. These shortfalls were partially covered with loans from the GDB and other nonrecurring revenues. From fiscal year 2003 to 2008, the GDB granted loans to the Commonwealth aggregating to $1,964 million to cover part of the Commonwealth's deficit. As of June 30, 2013, the outstanding principal amount of these loans was $220.7 million.

During fiscal year 2013, the GDB received $65.1 million, $97.9, million and $62.4 million of appropriations to repay principal of and interest on public sector loans whose repayment source was originally from COFINA, from future issuances of Commonwealth's general obligations bonds, and other legislative appropriations, respectively. The Commonwealth's General Fund budget for fiscal year 2014 includes $65.7 million, $103.1 million, and $122.5 million of appropriations to repay principal of and

interest on public sector loans whose repayment sources were originally from COFINA, from future issuances of Commonwealth's general obligations bonds, and other legislative appropriations, respectively. These appropriations are based on payment schedules proposed by the GDB, which are based on a period of amortization of 30 years each, at contractual interest rates. The GDB will annually submit to the OMB, to be included in the Commonwealth's budget for legislative approval in each subsequent fiscal year, an amount established in the payment schedules with the terms stated above. The GDB expects that future appropriations will be approved by the Legislature of the Commonwealth to comply with such schedules. However, there can be no assurance that the Director of the OMB will include an amount for loan repayments in the Commonwealth's budget, and that the Legislature will appropriate sufficient funds in the future to cover all amounts due to the GDB on these loans.

In addition, at June 30, 2013, approximately $3.4 billion of public sector loans are payable from proceeds from future bond issuances and operating income of public corporations of the Commonwealth. The GDB lends funds to such public corporations for capital improvements and operating needs. The loans for capital improvements generally are construction loans and are repaid from the proceeds of future bond issuances of the respective public corporations. Such loans may, however, also be repaid from the revenues of such public corporations, from loans provided by sources other than the GDB, from federal grants, and from the sale of assets of such public corporations. The amount of outstanding loans from the GDB to the public corporations fluctuates annually, depending upon the capital program needs of the public corporations, the timing and level of their capital expenditures, and their ability to gain access to the long-term capital markets. The participation of certain of these public entities in the bond market has been delayed waiting for the credit rating of such entities to improve or for more favorable market conditions.

As of June 30, 2013, the GDB has extended various credit facilities to the PRHTA for, among other, capital improvement programs, working capital, debt service and collateral posting requirements. The outstanding balance of such facilities amounts to approximately $2.0 billion, including accrued interest of $145 million, which represent 14% and 83%, of GDB's total assets and net position, respectively, at June 30, 2013.

The GDB, in its ordinary course of business, provides interim lines of credit to public corporations like the PRHTA. These lines of credit have historically been repaid from bond issuances of each public corporation, once they regain or have access to the capital markets.

PRHTA has reported net operating losses during each of the three fiscal years in the period ended June 30, 2013, and, as a result, the GDB has been partially financing its operations through credit facilities. In fiscal year 2010, the PRHTA entered into a fiscal oversight agreement with the GDB, whereby the GDB, among other things, imposes conditions on the extensions of credit to the PRHTA and continually monitors its finances. Refer to note 2 for further discussion on management plans to repay outstanding borrowings with the GDB.

During August 2013, the PRHTA issued the 2013A bond anticipation notes amounting to $400 million. The proceeds from the bond anticipation notes were used to pay outstanding loans held by the PRHTA with GDB. In addition to the above, subsequent to June 30, 2013, GDB disbursed and collected approximately $89 million and $69.5 million, respectively, related to loans of the PRHTA.

(8) Pledges of Receivables and Future Revenues

The Commonwealth has pledged the first two point seventy-five (2.75%) percent of the sales and use tax for the repayment of certain outstanding obligations of the Commonwealth. During 2013, COFINA, a blended component unit of the Commonwealth, responsible for the financing, payments and retirement of certain debt obligations of the Commonwealth, has issued bond anticipation notes for approximately $333.3 million payable on September 30, 2014. The Commonwealth has committed to appropriate each year, from the sales and use tax, amounts sufficient to cover the principal and interest requirements on the debt issued by COFINA. COFINA has pledged as the sole security for the bonds, the annual appropriations from the Commonwealth. Total principal and interest remaining on the secured debt is $35.5 billion and $17.7 billion, respectively. The pledged sale and use tax base amount for the fiscal year ended June 30, 2013 amounted to approximately $619 million. For fiscal year 2013, interest paid by COFINA amounted approximately to $643 million and issuance costs of approximately $600 thousands on the aforementioned bond anticipation notes issued. Sales and use tax revenue recognized by the Commonwealth was approximately $543 million.

Rum manufactured in Puerto Rico is subject to federal excise taxes; however, these are returned by the U.S. Internal Revenue Service (IRS) to the Commonwealth. Act No. 44, as amended, requires that in each fiscal year through fiscal year 2057, the first $117 million, of certain federal excise taxes received by the Commonwealth be transferred to the Puerto Rico Infrastructure Financing Authority (PRIFA), a blended component unit of the Commonwealth. Such taxes consist of the federal excise taxes levied on rum and other articles produced in Puerto Rico and sold in the United States, which taxes are collected by the U.S. Treasury and returned to the Commonwealth. The Commonwealth has pledged these taxes for the repayment of PRIFA’s Special Tax Revenue Bonds (the Bonds). The Commonwealth has committed to appropriate each year, from the excise taxes, amounts sufficient to cover the principal and interest requirements on the debt issued by PRIFA. PRIFA has pledged as the sole security for the bonds, the annual appropriations from the Commonwealth. The federal excise taxes securing the Bonds are subject to a number of factors, including the continued imposition and remittance of such taxes to the Commonwealth and conditions affecting the Puerto Rico rum industry. The level of federal excise taxes to be received by the Commonwealth is currently expected to decrease, although the exact amount cannot be determined. If the federal excise taxes received by the Commonwealth in any fiscal year are insufficient, Act No. 44 requires that PRIFA request and the Director of the Office of Management and Budget of the Commonwealth include in the budget of the Commonwealth for the corresponding fiscal year, an appropriation necessary to cover such deficiency. The Commonwealth’s Legislature, however, is not obligated to make the necessary appropriation to cover such deficiency. Total principal and interest remaining on the secured debt is $2.5 billion and $1.3 billion, respectively. For the year ended June 30, 2013, of the total of $117 million received by PRIFA from the Commonwealth, a total of $113 million was pledged for the debt service of the Special Tax Revenue Bonds. For fiscal year 2013, principal and interest paid on Special Tax Revenue Bonds by PRIFA amounted to $112.1 million.

Also, the Commonwealth has pledged part of the gross receipts of the gasoline excise taxes and one half of the diesel oil excise taxes (up to $11 million monthly but no more than $120 million annually) derived from excise taxes over crude oil and its derivatives and $15 per vehicle per year from motor vehicle license fees for the repayment of the PRHTA Revenue Bonds. On June 25, 2013, as described in note 7, the Commonwealth enacted Act No. 31, amending the aforementioned gasoline excise tax rates and distributions, and eliminating the $120 million ceiling; therefore providing additional sources for the

repayment of the debt issued by the PRHTA. The Commonwealth has committed to appropriate each year, from the excise taxes, amounts sufficient to cover the principal and interest requirements on the debt issued by the PRHTA. The PRHTA has pledged as the sole security for the bonds, the annual appropriations from the Commonwealth. Total principal and interest remaining on the secured debt is $4.6 billion and $4.3 billion, respectively. The pledged excise tax for the fiscal year ended June 30, 2013 amounted to $120 million. For fiscal year 2013, principal and interest paid by the PRHTA amounted to $185 million and $307 million, respectively, and the excise tax revenue recognized by the Commonwealth was $258 million.

(9) Interfund and Intraentity Transactions

Interfund receivables and payables at June 30, 2013 are summarized as follows (expressed in thousands):

Receivable Fund	Payable Fund		
Lotteries	General	$	5,328
Other governmental	General		41,770
Other proprietary	General		24,112
General	Other governmental		20,454
General	Unemployment		14,051
Puerto Rico Medical Service Administration	General		10,637
General	Other Proprietary		6,668
		$	123,020

Transfers from (to) other funds for the year ended June 30, 2013 are summarized as follows (expressed in thousands):

Transferee Fund	Transferor Fund		
Debt service (a)	General	$	728,869
Other governmental (b)	General		479,914
General (c)	COFINA Special Revenue		459,148
General (d)	Debt service		312,888
General (e)	Lotteries		211,426
COFINA Special Revenue (f)	COFINA Debt Service		117,655
General (g)	Unemployment Insurance		62,744
Puerto Rico Medical Services Administration (h)	General		47,370
General (i)	Other proprietary		22,915
Debt service (j)	Other governmental		17,011
Water Pollution Revolving Fund (k)	General		1,880
Other proprietary (l)	General		927
Other governmental	Debt service		200
		$	2,462,947

The principal purposes of the interfund transfers are to (expressed in thousands):

a. Transfer of $728,869 from the General Fund to the debt service fund to make funds available for debt service payments.

b. Recognize as transfers the rental payments made by the Commonwealth's agencies on properties leased by the PBA, a blended component unit of the Commonwealth ($205,063); transfer for these payments made by the Commonwealth's agencies on properties leased by the PRIFA, a blended component unit of the Commonwealth ($5,788); $107,687 related to the revenues received from the Tobacco Settlement Agreement managed by The Children's Trust, a blended component unit of the Commonwealth; $29,892 related to the SCPT for the payment of its debt and $131,484 to the PRIFA for the payment of debt and capital projects.

c. Transfer of $459,148 from the COFINA Special Revenue Fund to the General Fund to fund the General Fund for the payment of appropriation debt.

d. Transfer of $312,888 from the debt service fund to the General Fund for the payment of principal and interests on notes payable.

e. Transfer of $211,426 from the Lotteries to the General Fund to distribute the increase in net assets of the Lotteries for the use of the General Fund, as required by the Lotteries enabling legislation.

f. Transfer of $117,655 from the COFINA Debt Service Fund to the COFINA Special Revenue Fund to be transferred to the General Fund for the purpose stated below.

g. Transfer from the Unemployment Insurance Fund related to the distribution of surplus cash corresponding to the General Fund for the payment of administrative expenses ($62,744).

h. Transfer of $47,370 from the General Fund to Puerto Rico Medical Service Administration, a major proprietary fund, to make funds available for debt service payments, capital projects and operating expenses.

i. Transfer from the Drivers' and Disability Insurance Funds related to the distribution of surplus cash to the General Fund ($22,915).

j. Transfer from the Commonwealth's capital projects fund to the debt service fund for the payment of interest of its bonds ($17,011).

k. Transfer to provide local matching funds from the General Fund to the Puerto Rico Water Pollution Control Revolving Fund, a major enterprise fund of the Commonwealth ($1,880).

l. Transfer to provide local matching funds from the General Fund to the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund, a nonmajor enterprise fund of the Commonwealth ($927).

Interfund receivables and payables represent the pending settlements of the aforementioned transfers or transactions from current and prior years.

Due from component units are as follows (expressed in thousands):

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2013

Payable Entity		Receivable Entity: General fund	Public Building Authority	Puerto Rico Water Pollution Control Revolving Fund	Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund	Puerto Rico Medical Services Administration	Total Due from Component Units
Puerto Rico Aqueduct and Sewer Authority	$	-	-	315,334	154,409	-	469,743
University of Puerto Rico		-	-	-	-	11,863	11,863
Puerto Rico Health Insurance Administration		7,239	-	-		-	-
Cardiovascular Center Corporation of Puerto Rico and the Caribbean		-	14,745	-		-	-
National Parks Company of Puerto Rico		13,322	-	-		-	-
Puerto Rico Land Administration		1,203	-	-	-	-	-
Puerto Rico Maritime Shipping Authority		1,150	-	-	-	-	-
Puerto Rico Metropolitan Bus Authority		12,621	-	-		-	-
Puerto Rico Ports Authority		25,804	-	-	-	-	-
Puerto Rico Tourism Company		8,337	-	-	-	-	-
Puerto Rico Trade and Export Company		2,859	-	-	-	-	-
Puerto Rico Industrial Development Company		7,737	-	-	-	-	-
Total due to	$	80,272	14,745	315,334	154,409	11,863	481,606

Due to component units primary government are as follows (expressed in thousands):

Receivable Entity		Payable Entity: General fund	Public Building Authority	Puerto Rico Medical Services Administration	Puerto Rico Infrastructure Financing Authority	Total Due to Component Units
Government Development Bank for Puerto Rico	$	97,154	-	-	-	97,154
Puerto Rico Electric Power Authority		60,495	7,919	12,405	2,163	82,982
Puerto Rico Aqueduct and Sewer Authority		47,597	-	7,900	-	55,497
University of Puerto Rico		29,750	-	18,846	1,210	49,806
Puerto Rico Health Insurance Administration		44,610	-	-	-	44,610
Agricultural Enterprises Development Administration		28,442	-	-	-	28,442
University of Puerto Rico Comprehensive Cancer Center		2,000	-	-	-	2,000
Land Authority of Puerto Rico		8,696	-	-	-	8,696
National Parks Company of Puerto Rico		8,805	-	-	-	8,805
Puerto Rico Metropolitan Bus Authority		1,023	-	-	-	1,023
Puerto Rico Ports Authority		16,500	-	-	-	16,500
Puerto Rico Tourism Company		2,315	-	-	-	2,315
Company for the Integral Development of the "Península de Cantera		30,733	-	-	-	30,733
Total due to	$	378,120	7,919	39,151	3,373	428,563

The amount owed by PRASA of approximately $470 million represents construction loans granted by the Puerto Rico Water Pollution Control Revolving Fund and the Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund, nonmajor enterprise funds, to finance the construction of capital assets for PRASA.

The amount presented as due from primary government by the University of Puerto Rico exclude approximately $11.9 million, which was recorded and presented by the Commonwealth as notes payable in the accompanying statement of net position of the governmental activities.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2013

Due from (to) component units are as follows (expressed in thousands):

	Receivable Entity														
Payable Entity	Government Development Bank for Puerto Rico	Puerto Rico Aqueduct and Sewer Authority	Puerto Rico Electric Power Authority	Puerto Rico Highways and Transportation Authority	University of Puerto Rico	Cardiovascular Center Corporation of Puerto Rico and the Caribbean	Farm Insurance Corporation of Puerto Rico	Land Authority of Puerto Rico	Puerto Rico Convention Center District Authority	Puerto Rico Land Administration	Puerto Rico Metropolitan Bus Authority	Puerto Rico Ports Authority	State Insurance Fund Corporation	University of Puerto Rico Comprehensive Cancer Center	Total Due to Component Units
Puerto Rico Trade and Export Company	$		1,344												1,344
Puerto Rico Conservatory of Music Corporation	1,398														1,398
Institute of Puerto Rican Culture	3,276														3,276
State Insurance Fund Corporation			3,713												3,713
Farm Insurance Corporation of Puerto Rico								4,992							4,992
Puerto Rico Metropolitan Bus Authority			4,867										2,767		7,634
Puerto Rico Electric Power Authority	6,843	1,410													8,253
Economic Development Bank for Puerto Rico	9,422														9,422
Puerto Rico Tourism Company					5,771				4,178			1,515			11,464
National Parks Company of Puerto Rico	11,251		2,702												13,953
Cardiovascular Center Corporation of Puerto Rico and the Caribbean			18,950												18,950
Company for the Integral Development of the	30,715			1,173											31,888
University of Puerto Rico comprehensive Cancer Center	20,050				13,075										33,125
Puerto Rico and Municipal Islands Maritime Transport Authority		1,400	1,156									35,577	2,146		40,279
Land Authority of Puerto Rico	37,018		4,154												41,172
Solid Waste Authority	74,178		5,486										4,541		84,205
Puerto Rico Industrial Development Company	87,325									1,306					88,631
Agricultural Enterprises Development Administration	92,606						7,719	9,679							110,004
University of Puerto Rico	101,183	1,045	20,196			1,616								13,618	137,658
Puerto Rico Aqueduct and Sewer Authority	89,835		57,786												147,621
Puerto Rico Convention Center District Authority	146,773	1,294	3,437												151,504
Puerto Rico Health Insurance Administration	183,251														183,251
Port of the Americas Authority	220,392														220,392
Puerto Rico Ports Authority	215,389	5,626	31,573										2,686		255,274
Puerto Rico Highways and Transportation Authority	2,047,467	1,657	22,808								3,095	6,035			2,081,062
Total Due from Component Units	$ 3,378,372	12,432	178,172	1,173	18,846	1,616	7,719	14,671	4,178	1,306	3,095	43,127	12,140	13,618	3,690,465

The amount due from component units presented by the GDB of $3,378,372 includes loan balances amounting to $3,376,035. The rest of the loans receivable reported by the GDB consists of the following (expressed in thousands):

Primary government – governmental activities	$	3,060,840
Primary government-business-type activities		273,344
Other governmental entities and municipalities		2,372,530
Private sector		537,475
Total loans receivable reported by GDB	$	6,244,189

The loans to the primary government are presented by the Commonwealth within notes payable in the statement of net position.

Expenses of the primary government include approximately $2.3 billion in capital and operational contributions made by the primary government to the component units as follows (expressed in thousands):

Puerto Rico Health Insurance Administration	$	887,725
University of Puerto Rico		834,208
Puerto Rico Highways and Transportation Authority		258,424
Puerto Rico Aqueduct and Sewer Authority		6,132
Nonmajor components units		276,245
Total contributions made by primary government to component units	$	2,262,734

(10) Capital Assets

Capital assets activity for the year ended June 30, 2013 is as follows (expressed in thousands):

Primary Government

	Beginning balance (as restated)	Increases	Decreases	Ending balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 899,224	12,405	1,881	909,748
Construction in progress	1,470,470	405,522	718,399	1,157,593
Total capital assets, not being depreciated	2,369,694	417,927	720,280	2,067,341
Buildings and building improvements	8,374,273	767,544	85,800	9,056,017
Equipment, furniture, fixtures, vehicles, and software	587,620	30,609	7,496	610,733
Infrastructure	605,846	—	—	605,846
Total capital assets, being depreciated and amortized	9,567,739	798,153	93,296	10,272,596
Less accumulated depreciation and amortization for:				
Buildings and building improvements	3,224,519	279,391	31,310	3,472,600
Equipment, furniture, fixtures, vehicles, and software	395,437	38,404	4,627	429,214
Infrastructure	143,881	12,539	—	156,420
Total accumulated depreciation and amortization	3,763,837	330,334	35,937	4,058,234
Total capital assets, being depreciated and amortized, net	5,803,902	467,819	57,359	6,214,362
Governmental activities capital assets, net	$ 8,173,596	885,746	777,639	8,281,703

As further discussed in note 3, the beginning balances of capital assets, and other balances, were restated primarily due to the impact of the adoption of GASB Statement No. 61.

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2013

	Beginning balance (as restated)	Increases	Decreases	Ending balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	6,872	—	—	6,872
Construction in progress	1,980	540	2,520	—
Total capital assets, not being depreciated	8,852	540	2,520	6,872
Building and building improvements	95,946	1,076	—	97,022
Equipment	87,163	5,542	3,615	89,090
Total capital assets being depreciated	183,109	6,618	3,615	186,112
Less accumulated depreciation and and amortization for:				
Building and building improvements	61,055	1,803	—	62,858
Equipment	70,201	3,941	3,221	70,921
Total accumulated depreciation and amortization	131,256	5,744	3,221	133,779
Total business-type activities capital assets, being depreciated, net	51,853	874	394	52,333
Total business-type activities capital assets, net	$ 60,705	1,414	2,914	59,205

Depreciation and amortization expense was charged to functions/programs of the primary government for the year ended June 30, 2013 as follows (expressed in thousands):

Governmental activities:	
General government	$ 96,064
Public safety	27,716
Health	7,706
Public housing and welfare	113,657
Education	67,321
Economic development	17,870
Total depreciation and amortization expense – governmental activities	$ 330,334

The Commonwealth annually performs an impairment analysis of its capital assets in accordance with the provisions of GASB Statement No.42. The current year's analysis identified no impairments to be recorded in the statement of activities for the year ended June 30, 2013.

General infrastructure assets include $427 million representing costs of assets transferred to the Department of Natural and Environmental Resources (DNER) of the Commonwealth in 1997 upon completion of the Cerrillos Dam and Reservoir and the Portugues-River and Bucana-River Projects

(the Cerrillos Dam and Reservoir Project) by the United States (U.S.) Army Corps of Engineers. These infrastructure assets are reported within governmental activities and include dams, intake facilities, and similar items built for flood control, water supply, and recreational purposes. The depreciation is computed using the straight-line method over an estimated useful life of 50 years from the transfer date of the property. Late in April 2011, the Commonwealth received a final debt agreement from the U.S. Army Corps of Engineers establishing a repayment schedule for its allocated share of the construction costs associated with the Cerrillos Dam and Reservoir Project, excluding those costs for items built for recreational purposes, amounting to $214 million. The Commonwealth's unpaid allocated share of these construction costs associated with the Cerrillos Dam and Reservoir Project amounted to $188 million, plus accrued interest of $43 million, at June 30, 2013. The Commonwealth also recorded a payable to the U.S. Army Corp of Engineers, amounting to approximately $14.6 million, for its estimated allocated share of the construction costs associated with the recreational part of the Cerrillos Damn and Reservoir Project, including accrued interest of approximately $4.0 million (see note 12(n)). On August 17, 2001, the Legislature of the Commonwealth approved Act No. 120, which requires the conditional transfer of the ownership of certain real properties under the name of the Department of Recreation and Sports (DRS) of the Commonwealth to the municipalities of the Commonwealth. Land and facilities have been transferred occasionally since the date of this Act at no cost to the municipalities. During the fiscal year ended June 30, 2013, no transfers were made to the municipalities under the provisions of this Act.

On February 24, 2012, PRIFA, a blended component unit, entered into an Assistance Agreement with the Puerto Rico Department of Justice (PRDOJ) and the GDB to acquire, refurbish and operate a property to be used for the relocation of the PRDOJ's main offices. In connection with the Assistance Agreement, the GDB provided a $35 million credit facility to PRIFA to undertake the acquisition and administration of this property and manage the initial phase of the rehabilitation and refurbishment of the property. On March 8, 2012, PRIFA acquired the property for approximately $27 million. The credit facility is payable solely from, and secured by the assignment of the PRDOJ lease agreement and any other existing and future lease agreement and by a mortgage lien on the property acquired.

PRIFA has also issued certain bonds and notes to finance the construction of certain capital projects for the benefit of PRASA, municipalities and other agencies and instrumentalities of the Commonwealth. The capital projects include the construction of infrastructure and buildings to be used in the operations of, and managed by, PRASA, the municipalities and other agencies in their respective operations. The capital projects, including the land acquired, are included as part of PRIFA's capital assets until construction is completed and the conditions for transfers to the ultimate beneficiaries are met. During the year ended June 30, 2013, PRIFA incurred approximately $6.9 million in construction costs for the benefit of other instrumentalities of the Commonwealth.

In October 2010, PRIFA entered into a memorandum of understanding with Puerto Rico Public-Private Partnerships Authority, Puerto Rico Public Buildings Authority, Puerto Rico Department of Education, Puerto Rico Department of Transportation and Public Works (DTOP, for its Spanish acronym), and the GDB for the administration of the Schools for the 21st Century Program (the 21st Century Program). Construction in process includes $222.5 million related to this program. The program consists of remodeling of over 100 schools throughout Puerto Rico. The estimated cost of the program at June 30, 2013 amounts to approximately $460 million. To finance the program, the PBA issued government facilities revenue bonds in the amount of $878 million during the fiscal year ended June 30, 2012 of which $237 million are deposited in construction funds at June 30, 2013.

PBA contracted the services of PRIFA to serve as construction manager. Under the contract, PRIFA is responsible for the management of the program including among others, the contracting general contractors and or subcontractors, inspection, supervision and acceptance of the remodeled schools and in certain cases provides maintenance to the schools. PRIFA billed the PBA the cost of the program plus an agreed upon administrative fee.

Certain of the schools under the program are property of the Department of Transportation and Public Works (DTOP), an agency of the Commonwealth. The Authority leased such schools from DTOP for a minimum rent of $10 per year. When the improvements of such schools are completed the Authority will bill rent to the Department of Education of the Commonwealth for the payment of the debt service of the bonds issued under the program.

Discretely Presented Component Units

Capital assets activity for discretely presented component units for the year ended June 30, 2013 is as follows (expressed in thousands):

	Balance (as restated)	Increases	Decreases	Ending balance
Capital assets not being depreciated/amortized:				
Land	$ 3,297,229	39,205	15,801	3,320,633
Art works	3,541	5	—	3,546
Construction in progress	3,674,510	1,284,377	1,780,128	3,178,759
Total capital assets not being depreciated/amortized	6,975,280	1,323,587	1,795,929	6,502,938
Capital assets being depreciated/amortized				
Buildings and building improvements	5,345,612	177,280	42,001	5,480,891
Equipment, furniture, fixtures, vehicles and software	10,945,428	344,544	71,296	11,218,676
Infrastructure	27,942,601	1,251,776	27,329	29,167,048
Intangibles, other than software	2,293	4,969	—	7,262
Total capital assets, being depreciated/amortized	44,235,934	1,778,569	140,626	45,873,877
Less accumulated depreciation/amortization for:				
Buildings and building improvements	2,336,415	154,469	37,406	2,453,478
Equipment, furniture, fixtures, vehicles and software	2,445,802	360,413	47,835	2,758,380
Infrastructure	16,038,174	707,042	33,236	16,711,980
Intangibles, other than software	923	57	—	980
Total accumulated depreciation/amortization	20,821,314	1,221,981	118,477	21,924,818
Total capital assets, being depreciated/amortized (net)	23,414,620	556,588	22,149	23,949,059
Capital assets (net)	$ 30,389,900	1,880,175	1,818,078	30,451,997

(11) Short-Term Obligations

Short term obligations at June 30, 2013 and changes for the year then ended are as follows (expressed in thousands):

		Balance at June 30, 2012	Debt issued	Debt paid	Other increases	Other (decreases)	Balance at June 30, 2013	Due within one year
Governmental activities:								
Notes payable to GDB	$	16,884	98,000	(150)	71,976	—	186,710	186,710
Tax revenue anticipation notes		—	900,000	(900,000)	—	—	—	—
Bond anticipation notes		75,835	185,672	(56,641)	—	—	204,866	204,866
	$	92,719	1,183,672	(956,791)	71,976	—	391,576	391,576

(a) *Notes Payable to the GDB*

The Commonwealth has entered into various short-term line of credit agreements with the GDB (all within governmental activities) consisting of the following at June 30, 2013 (expressed in thousands):

Agency	Purpose	Interest rate		Line of credit	Outstanding balance
Department of the Treasury	To pay operational expenses of agencies	150 bp over prime rate	$	98,000	98,000
Department of the Treasury	To pay agencies' debt	125 bp over 3 months LIBOR		100,000	71,976
Department of the Treasury	To fund information technology project	125 bp over GDB's commercial paper rate		44,868	14,174
Department of the Treasury	Purchase of mobile X-ray machines	125 bp over 3 months LIBOR		12,000	2,560
			$	254,868	186,710

Other increases include an increase of approximately $72.0 million in notes payable to the GDB-short term, which were classified as long term at June 30, 2012, but which matured during fiscal year 2013 became due and payable at June 30, 2013 and, consequently, is reported as a new short term debt matured and payable in the balance sheet – governmental funds. At the same time, upon such debt becoming matured and payable, a principal payment recognition was recorded for the same amount in the statement of revenue, expenditures and changes in fund balances (deficit)-governmental funds and presented within the debt paid column in the previous table reducing the long-term note payable to the GDB.

(b) ***Tax Revenue Anticipation Notes***

Act No. 1 of the Legislature of the Commonwealth, approved on June 26, 1987 (Act No. 1), authorizes the Secretary of the Department of the Treasury to issue, from time to time, notes in anticipation of taxes and revenues (Tax Revenue Anticipation Notes or TRANS) so that the Secretary, in the cash flow management program designed to maximize the use of moneys in the General Fund, will have an alternate means of providing a liquidity mechanism to cover any temporary cash shortages projected for a fiscal year. Act No. 139, approved on November 9, 2005, amended Section 2(g) of Act No. 1 to provide that the total principal amount of notes issued under the provisions of Act No. 1 and outstanding at any time for any fiscal year may not exceed the lesser of eighteen percent (18%) of the net revenues of the General Fund for the fiscal year preceding the fiscal year in which the notes are issued or one billion five hundred million dollars ($1.5 billion).

TRANS issued during fiscal year 2013 amounted to $900 million at interest rates ranging from 1.750% to 3.013%. TRANS proceeds were used to cover temporary cash deficiencies resulting from the timing differences between tax collections and the payments of current expenditures. TRANS were refinanced during the year in order to take advantage of interest rates. The maximum amount of TRANS outstanding at any time during the year was $900 million. As of June 30, 2013, the outstanding balance of TRANS was paid in full.

(c) ***Bond Anticipation Notes***

During fiscal year 2012, the Commonwealth was authorized to issue bond anticipation notes in an aggregate principal amount, not to exceed $290 million, in order to complete certain public improvement projects, acquire certain properties and equipment on behalf of some component units, and cover the cost and interest of the bonds expected to be issued, as described below. These notes were issued in anticipation of the issuance of public improvement bonds expected to be issued during fiscal year 2014. Although legal steps have been taken to refinance the anticipation notes with the bonds, since such bonds have not been issued as of the date of these basic financial statements, the related notes have been recognized as a short-term fund liability in the capital project fund. As of June 30, 2013, $204.9 million of bond anticipation notes were outstanding. From the outstanding balance, $61.9 million are payable to the GDB and $143 million are payable to others.

(12) Long-Term Obligations

(a) *Primary Government*

Long-term obligations at June 30, 2013 and changes for the year then ended are as follows (expressed in thousands):

	Balance at June 30, 2012 (as restated)	Debt issued	Debt paid	Other increases	Other (decreases)	Balance at June 30, 2013	Due within one year
Governmental activities:							
General obligation and revenue bonds	$ 35,139,420	333,300	(558,615)	380,884	(43,805)	35,251,184	827,410
Commonwealth appropriation bonds	536,517	—	—	2,975	(919)	538,573	—
Notes payable to component units:							
GDB	1,985,448	935,007	(108,241)	—	—	2,812,214	1,129,844
Other	30,993	—	(19,073)	—	—	11,920	6,920
Capital leases	182,605	259	(5,522)	—	—	177,342	5,523
Total bonds, notes, and and capital leases payable	37,874,983	1,268,566	(691,451)	383,859	(44,724)	38,791,233	1,969,697
Compensated absences	1,376,253	—	—	672,827	(518,762)	1,530,318	119,169
Net pension obligation	11,158,801	—	—	2,750,286	(836,422)	13,072,665	—
Net postemployment benefit obligation	215,244	—	—	189,481	(126,353)	278,372	—
Voluntary termination benefits payable	653,872	—	—	532,146	(91,577)	1,094,441	101,178
Other long-term liabilities	2,429,419	—	—	383,680	(716,427)	2,096,672	218,249
Total governmental activities	53,708,572	1,268,566	(691,451)	4,912,279	(2,334,265)	56,863,701	2,408,293
Business-type activities:							
Notes payable to GDB	264,434	9,988	(1,078)	—	—	273,344	1,078
Net postemployment benefit obligation	1,345	—	—	227	—	1,572	—
Compensated absences	17,589	—	—	408	—	17,997	2,194
Obligation for unpaid lottery prizes	191,586	—	—	554,254	(569,648)	176,192	49,489
Voluntary termination benefits	6,020	—	—	1,242	(870)	6,392	733
Claims liability for insurance benefits	72,994			390,283	(393,891)	69,386	69,386
Other long-term liabilities	23,178	—	—	1,987	(3,682)	21,483	8,907
Total business-type activities	577,146	9,988	(1,078)	948,401	(968,091)	566,366	131,787
Total primary government	$ 54,285,718	1,278,554	(692,529)	5,860,680	(3,302,356)	57,430,067	2,540,080

As further discussed in note 3, the beginning balance of long-term obligations and other balances were restated primarily due to the impact of the adoption of GASB statement No.61.

The principal balance of general obligation and revenue bonds paid reported as expenditures in the statement of revenues, expenditures, and changes in fund balances (deficit) – governmental funds does not agree with amounts reported as debt paid in the table above because it includes principal paid on July 1, 2012 on general obligation and revenue bonds amounting to approximately $425 million, which was accrued at June 30, 2012 as a fund liability. Also, during fiscal year 2013 the amount of approximately $456.8 million of debt principal paid on July 1, 2013 was accrued as a fund liability at June 30, 2013, but not included as payments in the table above. The net effect of approximately $31.8 million is the difference between the principal paid on bonds, notes and capital leases payable included in the previous table and the principal shown as expenditures in the statement of revenues, expenditures, and changes in fund balances (deficit) – governmental funds.

Approximately $1.8 million of the long-term liability to the U.S. Army Corps of Engineers, matured during 2013 and became due and payable, and is included as an addition to the other liabilities presented in the balance sheet-governmental funds. At the same time, upon such portion becoming matured and payable, a principal payment recognition was recorded for the same amount in the statement of revenue, expenditures and changes in fund balances (deficit)-governmental funds, but not included as debt paid in the table above. The remaining balance of the other increases (decreases) in bonds, notes and capital leases payable consists of capitalization of interest on capital appreciation bonds (increases); amortization of deferred losses, net on refundings (increases); amortization of premiums (decreases) and accretion of discounts (increases) on bonds. These adjustments did not require any source or use of cash.

Compensated absences, net pension obligation, net postemployment benefit obligation, voluntary termination benefits, other long-term liabilities, obligation for unpaid lottery prizes, and claims liability for insurance benefits reflect other increases resulting from accrual adjustments for 2013 to agree these obligations to their new estimated balances at June 30, 2013, and other decreases resulting from payments on these obligation made during 2013. These payments, as pertaining to the governmental activities, are not included as principal payments in the statement of revenue, expenditures and changes in fund balances (deficit)-governmental funds, but presented as expenses within their corresponding functions.

(b) ***Debt Limitation***

The Constitution of the Commonwealth authorizes the contracting of debts as determined by the Legislature. Nevertheless, Section 2, Article VI of the Constitution of the Commonwealth provides that direct obligations of the Commonwealth evidenced by bonds or notes and backed by the full faith, credit, and taxing power of the Commonwealth shall not be issued if the amounts of the principal of and interest on such bonds and notes and on all such bonds and notes issued thereafter, which are payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year of such proposed issuance on account of bonds or notes guaranteed by the Commonwealth, exceed 15% of the average annual revenues raised under the provisions of Commonwealth legislation and deposited into the Treasury (hereinafter internal revenues) in the two fiscal years preceding the fiscal year of such proposed issuance. Section 2, Article VI of the Constitution does not limit the amount of debt that the Commonwealth may guarantee so long as the 15% limitation is not exceeded through payments by the Commonwealth on such guaranteed debt. Internal revenues consist principally of income taxes, sales and use tax, property taxes and excise taxes. Certain revenues, such as federal excise taxes on offshore shipments of alcoholic beverages and tobacco products and customs duties, which are collected by the United States Government and returned to the Commonwealth, and motor vehicle fuel taxes, crude oil and derivative products excise taxes and license fees, which are allocated to the PRHTA, a discrete component unit, are not included as revenues for the purpose of calculating the debt limit, although they may be available for the payment of debt service. In addition, the portion of sales and use tax allocated to COFINA is not included as internal revenues consistent with the legislation creating COFINA, which transfers ownership of such portion of the sales and use tax to COFINA and provides that such portion is not "available resources" under the constitutional provisions relating to the payment of debt service. At June 30, 2013, the Commonwealth is in compliance with the debt limitation requirement.

(c) *Bonds Payable*

The Constitution of the Commonwealth provides that public debt will constitute a first claim on the available revenue of the Commonwealth. Public debt includes general obligations and revenue bonds of the Commonwealth and any payment required to be made by the Commonwealth under its guarantees of bonds issued by blended or discretely presented component units. The full faith, credit, and taxing power of the Commonwealth are irrevocably pledged for the prompt payment of the principal and interest of the general obligation bonds.

Act No. 83 of August 30, 1991, as amended, provides for the levy of an annual special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation. The levy is made by Municipal Revenue Collection Center (known as CRIM, its Spanish acronym), a municipal corporation, not a component unit of the Commonwealth. CRIM is required to remit the 1.03% of property tax collected to the Commonwealth to be used by the Commonwealth's debt service fund for payment of debt service on general obligations and revenue bonds of the Commonwealth. During the year ended June 30, 2013, the total revenue and receivable reported by the Commonwealth amounted to approximately $102.8 million and $31.0 million, respectively, which are included in the debt service fund.

For financial reporting purposes, the outstanding amount of bonds represents the total principal to be repaid, plus unamortized premiums and interest accreted on capital appreciation bonds, less unaccreted discount and deferred refunding losses.

Bonds payable outstanding at June 30, 2013, including accreted interest on capital appreciation bonds, are as follows (expressed in thousands):

COMMONWEALTH OF PUERTO RICO

Notes to Basic Financial Statements

June 30, 2013

	General obligation bonds	Revenue bonds	Total
Term bonds payable through 2042; interest payable monthly or semiannually at rates varying from 0.13% to 6.50%	$ 5,200,588	8,229,077	13,429,665
Serial bonds payable through 2042; interest payable monthly or semiannually at rates varying from 0.13% to 6.75%	5,316,060	1,874,587	7,190,647
Fixed rate bonds payable through 2057; interest payable at rates varying from 3.38% to 6.50%	—	5,871,382	5,871,382
Capital appreciation bonds payable through 2056; no interest rate, yield ranging from 3.75% to 7.48%. (1)	174,630	4,895,143	5,069,773
Special Tax Revenue Bonds payable through 2046; interest payable or accreted semiannually at rates varying from 4% to 5.5%	—	1,840,793	1,840,793
Mental Health Infrastructure Revenue Bonds payable through 2038; interest payable semiannually at rates varying from 5.6% to 6.5%	—	37,800	37,800
The Children's Trust Fund tobacco settlement asset-backed bonds payable through 2057; interest payable or accreted semiannually at rates varying from 4.25% to 8.375%	—	1,399,632	1,399,632
Capital Fund Program Bonds, maturing in various dates payable through 2025; interest payable semiannually at rates varying from 2.00% to #	—	468,505	468,505
LIBOR-Based Adjustable Rate Bonds due on August 1, 2057; interest payable quarterly (1.11% at June 30, 2013)	—	136,000	136,000
Total	10,691,278	24,752,919	35,444,197
Unamortized premium (discount), net	108,255	70,752	179,007
Deferred refunding loss, net	(219,895)	(152,125)	(372,020)
Total bonds payable	$ 10,579,638	24,671,546	35,251,184

(1) Revenue bonds include $848 million capital appreciation bonds convertible to fixed rate interest bonds on August 1, 2016; August 1, 2019; and August 1, 2020.

As of June 30, 2013, debt service requirements for general obligation and revenue bonds outstanding, including accreted interest of capital appreciation bonds are as follows (expressed in thousands):

Year ending June 30		Principal	Interest	Interest subsidy (1)	Total
2014	$	827,410	1,508,040	3,835	2,339,285
2015		855,700	1,488,280	3,835	2,347,815
2016		573,035	1,461,016	3,835	2,037,886
2017		626,390	1,160,449	3,835	1,790,674
2018		560,770	1,451,088	3,835	2,015,693
2019 – 2023		3,380,895	7,100,061	19,173	10,500,129
2024 – 2028		4,423,987	6,294,777	19,173	10,737,937
2029 – 2033		6,470,427	5,407,279	19,173	11,896,879
2034 – 2038		7,863,775	3,692,688	19,173	11,575,636
2039 – 2043		10,728,650	1,712,620	16,297	12,457,567
2044 – 2048		7,300,615	381,127	—	7,681,742
2049 – 2053		5,808,191	313,365	—	6,121,556
2054 – 2058		14,104,333	274,535	—	14,378,868
Total		63,524,178	32,245,325	112,164	95,881,667
Less unaccreted interest		(28,079,981)			
Plus unamortized premium, net		179,007			
Less deferred refunding loss, net		(372,020)			
Total	$	35,251,184			

(1) Sales Tax Revenue Bonds, First Subordinate Series 2010D and 2010E were issued as Build America Bonds. COFINA will receive a subsidy payment from the federal government equal to 35% and 45%, respectively, of the amount of each interest payment. On June 24, 2013, the IRS sent notice that 8.7% of the subsidy payment on the Build America Bonds will be sequestered due to adjustments of the Federal Government budget.

The table that follows represents governmental activities debt service payments on certain general obligation and revenue variable-rate bonds and the net payments on associated hedging derivative instruments (see note 20) as of June 30, 2013. Although interest rates on variable rate debt and the current reference rates of hedging derivative instruments change over time, the calculations included in the table below are based on the assumption that the variable rate and the current reference rates of hedging derivative instruments at June 30, 2013 will remain the same for their term.

Year ending June 30	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Hedging Derivative Instruments, Net	Total
2014	$ —	5,854	16,093	21,947
2015	—	5,854	16,093	21,947
2016	—	5,854	16,093	21,947
2017	—	5,854	16,093	21,947
2018	—	5,854	16,093	21,947
2019-2023	360,340	16,639	53,264	430,243
2024-2028	17,370	7,813	29,206	54,389
2029-2033	12,470	7,699	26,199	46,368
2034-2038	—	7,684	25,772	33,456
2039-2043	—	7,684	25,772	33,456
2044-2048	—	7,684	25,772	33,456
2049-2053	—	7,684	25,772	33,456
2054-2058	136,000	6,915	23,196	166,111
Total	$ 526,180	99,072	315,418	940,670

COFINA's outstanding bonds are payable from amounts deposited in the Dedicated Sales Tax Fund in each fiscal year. The minimum amount to be deposited is the Pledged Sales Tax Base Amount, which for the fiscal year ended June 30, 2013, was $618,972,164. The Pledged Sales Tax Base Amount increases each fiscal year thereafter at a statutory rate of 4% up to $1,850,000,000. At June 30, 2013, the Pledged Sales Tax Base Amount, by year, is as follows (expressed in thousands):

Year ending June 30	Amount
2014	$ 643,731
2015	669,480
2016	696,260
2017	724,110
2018	753,074
2019-2023	4,242,049
2024-2028	5,161,101
2029-2033	6,279,269
2034-2038	7,639,690
2039-2043	9,050,807
2044-2048	9,250,000
2049-2053	9,250,000
2054-2058	9,250,000
Total	$ 63,609,571

On April 30, 2013, COFINA issued its Bond Anticipation Notes Series 2013A, amounting to approximately $333.3 million. The Series 2013A notes bear interest at 1.95% and mature on September 30, 2014. The proceeds from the issuance of the Series 2013A notes were used to complete the funding of the Commonwealth's operating deficit for fiscal year 2013. Although not a bond, for practical purposes the Commonwealth has included this bond anticipation note within the aforementioned debt service requirements table for general obligation and revenue bonds.

On August 1, 2008, Puerto Rico Housing Finance Authority (the Authority), a blended component unit of the GDB, issued Capital Fund Modernization Program Subordinate Bonds amounting to $384 million and Housing Revenue Bonds amounting to $100 million. The proceeds from the issuance on these bonds were mainly used to finance a loan (the Loan) to Vivienda Modernization 1, LLC (the LLC). The LLC will utilize moneys from the Loan for the purpose of financing a portion of the costs of the acquisition and modernization of various housing projects in the Commonwealth and paying certain transactional costs.

The LLC is a limited liability company created under the laws of the Commonwealth whose sole member is Vivienda Modernization Holdings 1, S.E. (the Sole Member or the Partnership), a civil partnership created under the laws of the Commonwealth and pursuant to a related Partnership Agreement. The Partnership was created on August 1, 2008 by the Department of Housing of the Commonwealth of Puerto Rico (DOH), in its capacity as the general partner (the General Partner) and Hudson SLP XL LLC, a Delaware limited liability company, as the Special Limited Partner (the Special Limited Partner) and Hudson Housing Tax Credit Fund XL LP, a Delaware limited partnership, as the Investment Partnership (the Investment Partnership); collectively with the Special Limited Partner, (the Limited Partners). The Partnership has been organized exclusively to be the sole member of the LLC, which entity has been formed to acquire, develop, rehabilitate, own, maintain and operate thirty three residential rental housing developments intended for rental to persons of low and moderate income. As part of these developments, LLC is intended to acquire a 99 year term Surface Right with respect to the related land and to acquire, develop, finance, rehabilitate, maintain, operate, lease and sell or otherwise dispose of each Apartment Complex, in order to obtain for the Partnership and its Partners statutory compliance, long-term appreciation, cash income, and tax benefits consisting, of tax credits and tax losses over the term hereof.

Profits, losses and tax credits are allocated in accordance with the Partnership Agreement. Profits and losses from operations and low-income housing tax credits in any year shall be allocated 99.98% to the Investment Partnership, 0.01% to the Special Limited Partner and 0.01% to the General Partner. As defined in the Partnership Agreement, certain transactions and occurrences warrant special allocations of profits and losses. All other losses shall be allocated to the extent allowable under Section 704(b) of the U.S. IRC.

Pursuant to the Partnership Agreement, the Limited Partners are required to provide capital contributions totaling approximately $235 million to the Partnership (Initial Projected Equity), subject to potential adjustment based on the amount of low-income housing credits ultimately allocated to the developments in addition to other potential occurrences as more fully explained in the Partnership Agreement. As of June 30, 2013, the Limited Partners have provided capital contributions totaling $126.6 million.

Pursuant to the Partnership Agreement, the General Partner is required to provide capital contributions totaling $10 million to the Partnership. Should the Partnership have not sufficient funds available to pay the outstanding balance of the developer fee thereof, as defined, the General Partner shall be required to provide additional capital contributions to the Partnership in an amount sufficient for the Partnership to pay such balance in full. The General Partner shall have no right or obligation to make any other capital contributions. As of June 30, 2013, the General Partner had provided no capital contributions. In addition, the DOH as general partner shall establish the Assurance Reserve

Fund at initial closing in the amount of the initial capital contribution less $4 million (plus any initial capital contribution with respect to the apartment complexes). Amounts in the Assurance Reserve Fund shall be used, (i) upon the request of the General Partner, subject to the consent of the Special Limited Partner, or (ii) upon the direction to the Special Limited Partner, to meet financial obligations of the General Partner, other than for excess development costs, as provided in the Partnership Agreement. As of June 30, 2013, such reserve was maintained in the Partnership. The amount owed to the DOH for the assurance reserve fund as of June 30, 2013, amounted to $16.6 million.

On August 7, 2008, Puerto Rico Public Housing Administration (PHA) and the LLC entered into a Regulatory and Operating Agreement (the Agreement). PHA and the LLC have determined that it would be desirable for the public housing rental development to undergo comprehensive modernization (e.g. new floors, electrical wiring, plumbing, windows, doors, roofs and accessibility features) or development, which modernization or development will be undertaken and operated by the LLC.

On August 7, 2008, the LLC and the DOH entered into a Purchase and Sales Agreement through which the LLC acquired the surface rights of a property (the Property) and the improvement erected on such property consisting of buildings and construction in progress with a net book value and cost of $45.9 million and $110 million, respectively, from the DOH under those certain deeds of Constitution of Surface Rights and Transfer of Improvements dated August 7, 2008, which will require the LLC to rehabilitate or construct on the Property four thousand one hundred thirty-two (4,132) residential rental units (the Units or collectively the Development) all of which will receive the benefit of operating subsidy and benefit of low income housing tax credit under Section 42 of the Internal Revenue Code of 1986, as amended. Eighty-four (84) of the units, all of which will be located at the Brisas de Cayey II site, are to be newly constructed. The remaining units will be modernized.

Also, on August 7, 2008, the DOH entered into a loan agreement with the LLC in the amount of $102.9 million for the acquisition of the 33 residential rental properties (the deferred purchase price note). The LLC shall make payments equal to the amount of net available capital contributions, as defined, for the preceding calendar quarter.

The terms of the deferred purchase price note are described as set forth below:

Commitment	$ 102,889,957
Interest rate	3.55%
Maturity date	Later of (i) funding of the last installment of the third capital contribution or (ii) August 7, 2013

The note shall be a full recourse liability of the LLC; however, none of the LLC's members has personal liability. As of June 30, 2013, the principal balance outstanding on the deferred purchase price note was approximately $8.8 million and accrued interest was approximately $552 thousand. At the same time, based on the Purchase and Sale Agreement, PHA received approximately $92.4 million from the LLC, which was used to pay eligible project expenses incurred by PHA on an interim basis to minimize the expenditure of 2003 tax exempt bonds that were ineligible for inclusion

in the credit transaction. In addition, PHA received approximately $18.1 million from the LLC for Capital Fund Bonds funds previously expensed by the PHA from June to July 2009.

PHA has entered into an Interagency Agreement dated August 7, 2008 with the DOH, in DOH's capacity as general partner of the Partnership, to delegate management and operational duties related to the Development to PHA as set forth in the Interagency Agreement. The LLC and PHA also intend that the units be developed, operated and managed so as to assure receipt by the LLC of the aforementioned economic and tax benefits to the full extent available to the LLC.

Additionally, on August 7, 2008, the LLC entered into a Master Developer Agreement with the DOH to perform services in connection with the development, rehabilitation, and modernization of certain housing projects (the Master Developer Agreement). Pursuant to the Master Developer Agreement, the DOH will earn a developer's fee in the amount of approximately $75 million for services performed and to be performed. Payment of the developer's fee shall be subject to the terms and conditions of Section 6(a) (i-iv) of the Master Developer Agreement. As of June 30, 2013, the LLC owed the DOH the amount of approximately $71.1 million.

Under the Partnership Agreement, projects which do not meet the final completion schedule or satisfy other completion, occupancy, rent attainment or tax-credit related requirements or other Investor Limited Partner conditions to capital contributions with respect to such projects as set forth in the Partnership Agreement may under certain conditions be required to be purchased by the DOH or its designee. In such case, the DOH or its designee would assume the portion of the Loan allocated to such project(s), including both moneys remaining to be disbursed and repayment obligations, and would become a new additional borrower under the loan agreement. The LLC would be released with respect to the amount of the Loan assumed. The DOH or its designee could also seek to obtain a limited partner (who might or might not be the original Investor Limited Partner) and tax credit equity contributions. Such transfer does not affect the obligation of the DOH to grant moneys to the Authority to fund the permanent loan. As a requirement of such purchase, the DOH or its designee is required to repay equity already contributed by the Investor Limited Partner, plus interest and a purchase premium.

The Commonwealth's bonds payable are subject to arbitrage regulations issued by the Internal Revenue Service of the United States of America, that require rebate to the federal government of excess investments earnings on tax-exempt debt proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt debt issued. Excess earnings must be rebated every five years or upon maturity of the debt, whichever is earlier. Arbitrage calculations resulted in no liability as of June 30, 2013.

(d) ***Commonwealth Appropriation Bonds***

Over the years, the GDB, as fiscal agent and the bank for the Commonwealth, had extended lines of credit, advances, and loans to several agencies and component units of the Commonwealth in order to finance their capital improvement projects and to cover their operational deficits at the time. At different points in time, these loans were refunded through the issuance of Commonwealth appropriation bonds issued by the Puerto Rico Public Finance Corporation (PFC), a blended component unit of the GDB, which serves only as a conduit for the issuance of the bonds. The Commonwealth has recognized a mirror effect of these refundings by PFC over the years in its own

debt in proportion to the portion of the Commonwealth's notes included in such PFC refundings. Also, during more recent years, COFINA, through the issuance of bonds, has been used to repay certain other loans and existing appropriation bonds. COFINA is a blended component unit of the Commonwealth created in 2007 with the capacity to issue bonds to repay or refund advances from the GDB, the appropriation bonds referred to above, and other debt obligations, collectively referred as the extra constitutional debt. There were no new activities of Commonwealth appropriation bonds during fiscal year 2013, other than the annual amortization of corresponding premiums and deferred refunding losses.

At June 30, 2013, the outstanding balance of the Commonwealth appropriation bonds pertaining to the primary government (i.e. excluding the balance pertaining to discretely presented component units), consists of the following obligations (expressed in thousands):

Act. No. 164 restructuring	$	420,405
Puerto Rico Maritime Shipping Authority (PRMSA)		118,168
Total Commonwealth appropriation bonds	$	538,573

Act No. 164 Restructuring – On December 17, 2001, Act No. 164 was approved, which authorized certain government agencies and discretely presented component units to refund approximately $2.4 billion of their outstanding obligations with the GDB, for which no repayment source existed, over a period not exceeding 30 years, and to be repaid with annual Commonwealth appropriations not to exceed $225 million. This refunding was originally executed with Commonwealth appropriation bonds through several Series issued by PFC during the period between December 2001 and June 2002. Subsequently, additional refundings (current and advance) and/or redemptions of Act No. 164 restructuring have been executed through PFC and COFINA bond issuances.

Approximately $420.4 million of the Commonwealth Appropriation bonds outstanding at June 30, 2013, belong to the primary government under Act No. 164, consisting of the Department of Health of the Commonwealth (health reform financing and other costs), the Department of the Treasury of the Commonwealth (originally the fiscal year 2001 deficit financing and the obligation assumed for defective tax liens), and the one attributed to PRIFA, which effective July 1, 2012 became a blended component unit of the Commonwealth pursuant the adoption of GASB No. 61, as previously described in note 1(b). The outstanding balance of Commonwealth Appropriation bonds related to Act No. 164, bears interest at rates ranging from 3.10% to 6.50%. Debt service requirements in future years are as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2014	$ —	22,443	22,443
2015	—	22,443	22,443
2016	25,684	21,779	47,463
2017	20,836	21,048	41,884
2018	21,554	20,254	41,808
2019 – 2023	121,535	86,436	207,971
2024 – 2028	113,679	64,856	178,535
2029 – 2033	132,947	8,647	141,594
Total	436,235	$ 267,906	704,141
Plus unamortized premium	4,016		
Less deferred refunding loss	(19,846)		
Total	$ 420,405		

Puerto Rico Maritime Shipping Authority (PRMSA) – A promissory note payable owed by PRMSA to the GDB was assumed by the Commonwealth in connection with the sale of the maritime operations of PRMSA. Commonwealth appropriation bonds, 2003 Series B and 2004 Series B were issued to refund this liability, which were refunded most recently in June 2012 with the issuance of PFC 2012 Series A bonds.

The bond balance bears interest at a variable rate ranging from 3.10% to 5.35%. Debt service requirements in future years are as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2014	$ —	6,837	6,837
2015	—	6,837	6,837
2016	—	6,837	6,837
2017	—	6,837	6,837
2018	—	6,837	6,837
2019 – 2023	—	34,186	34,186
2024 – 2028	83,384	19,524	102,908
2029 – 2032	48,310	8,185	56,495
Total	131,694	$ 96,080	227,774
Less deferred refunding loss	(13,526)		
Total	$ 118,168		

(e) ***Advance Refunding, Defeased Bonds, and Refunding of Commonwealth Appropriation Bonds***

In prior years, the Commonwealth defeased certain general obligation and other bonds by placing the proceeds of the bonds in an irrevocable trust to provide for all future debt service payments on the

refunded bonds. Accordingly, the trust's account assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2013, approximately $676.9 million of bonds outstanding from prior years' advance refunding are considered defeased.

PBA has defeased certain revenue bonds in prior years by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old debts. Accordingly, the trust's account assets and liabilities for the defeased bonds are not included in the statement of net assets (deficit). As of June 30, 2013, approximately $619.1 million of PBA's bonds are considered defeased.

During prior years, COFINA issued certain refunding bonds, the proceeds of which were placed in an irrevocable trust to provide for all future debt service payments on the refunded COFINA Series 2009A and 2009B bonds. The outstanding balance of the advance refunded bonds was $91.2 million at June 30, 2013.

(f) *Notes Payable to Component Units and Others*

The Commonwealth financed certain long term liabilities through the GDB and other component units, mostly within governmental activities. The outstanding balance at June 30, 2013 on the financing provided by the GDB and other component units within governmental activities comprises the following (expressed in thousands):

GDB:		
Department of the Treasury	$	1,337,412
Special Communities Perpetual Trust		360,403
Office of Management and Budget		212,131
Public Buildings Authority		336,144
Department of Education		110,365
Department of Transportation and Public Works		82,611
Department of Agriculture		67,311
Correction Administration		55,338
Department of Justice		51,945
Department of Health		45,717
Puerto Rico Infrastructure Financing Authority		43,219
Police Department		33,012
Department of Housing		28,205
Office of the Superintendent of the Capitol		25,413
Puerto Rico Court Administration Office		13,102
Department of Recreation and Sports		9,596
Office of Veterans' Affairs		290
Notes payable to GDB	$	2,812,214

Other components units:		
Health facilities agreement payable to the UPR's Medical Sciences Campus	$	11,920
Notes payable to other component units	$	11,920

As of June 30, 2013, the Department of the Treasury of the Commonwealth has entered into various lines of credit agreements with the GDB amounting to approximately $2.5 billion for different purposes as presented in the following table. The purpose, interest rate, maturity date, and amount outstanding under each individual agreement at June 30, 2013 consist of the following (expressed in thousands):

Purpose	Interest rate	Maturity	Lines of credit	Outstanding balance
To pay certain monthly principal deposits required in connection with outstanding public with outstanding public improvement bonds and public improvement refunding bonds	150 bp over PRIME, but not less than 6%	June 30, 2042	$ 600,433	$ 600,433
To finance payroll and operational expenditures of the Commonwealth for fiscal year 2006	5.50%	June 30, 2036	741,000	220,725
Resources to meet appropriations in annual budget of the Commonwealth (fiscal year 2004) and federal programs expenditures	125 bp over 3 month LIBOR	June 30, 2018	640,000	143,951
To pay lawsuits against the Commonwealth and to assign $15.3 million to Labor Development Administration for operational expenses	6.00%	June 30, 2018	160,000	154,821
To finance capital improvements projects of agencies and municipalities	150 bp over GDB's commercial paper rate	June 30, 2019	130,000	87,065
To finance capital improvements of several governmental agencies	7.00%	June 30, 2018	105,000	71,732
Resources to cover the operational needs of the catastrophic disasters fund (fiscal year 2004) of the Puerto Rico Health Insurance Administration and the Department of the Family	125 bp over 3 month LIBOR	September 30, 2015	79,930	42,704
To pay invoices presented to the Treasury Department related to Act No.171 "Ley de Manejo de Neumátuicos"	6.00%	June 30, 2019	22,100	8,539
Acquisition of Salinas Correctional Facilities	125 bp over 3 month LIBOR	June 30, 2018	15,000	7,442
Total			$ 2,493,463	1,337,412

On November 21, 2002, Resolution No. 1028 from the Legislature of the Commonwealth authorized the GDB to provide a line of credit financing for $500 million to the Special Communities Perpetual Trust for the construction and rehabilitation of housing; construction and improvements of electric, water and sewage systems; repair and improvements of streets and sidewalks; construction and improvement of recreational facilities; and to encourage the attempts to develop initiatives for economic-auto-sufficiency for the residents of a selected group of displaced and economically disadvantaged communities, all encompassed within the Special Communities Program initiated with the creation of the Special Communities Perpetual Trust by Act No. 271 of November 21, 2002. This non-revolving line of credit, originally for a ten year term, was extended on June 30, 2012 to a

maturity date of June 30, 2040. Effective October 2009, the interest rate on this line was set at 7%. Annual payments on the line are determined using a 30-year amortization table based on the principal and interest balance as of December 31 of each year, and a 4% interest penalty is carried on late payments. Legislative Resolution No. 1762 of September 18, 2004 established that the principal plus accrued interest of this line would be repaid from Commonwealth's appropriations as established by the OMB. The outstanding balance of this line at June 30, 2013 amounted to $360.4 million.

On May 23, 2012, the Office of Management and Budget of the Commonwealth (OMB) entered into a $100 million line of credit agreement with the GDB to cover costs of the implementation of the third phase of Act No. 70 of 2010. Borrowings under this line of credit bear interest at prime rate plus 1.50% with a floor of 6%. The line of credit matures on July 31, 2027. As of June 30, 2013, $65.1 million were outstanding. On June 5, 2006, the Office of Management and Budget entered into a $150 million line of credit agreement with the GDB to provide economic assistance for disasters and emergencies. Borrowings under this line of credit agreement bear interest at variable rates based on 125 basis points over three month LIBOR and were payable upon the original maturity of the line of credit on September 30, 2011. On July 22, 2011, the Office of Management and Budget and the GDB amended the $150 million line of credit agreement to extend its maturity date to July 30, 2022. In addition, the agreement was converted to a revolving line of credit bearing interest at 150 basis points over prime rate, but in no event shall such rate be less than 6% per annum. As of June 30, 2013, approximately $147.1 million were outstanding.

During July 2012, the PBA executed two Loan Agreements with the GDB in which the PBA may borrow up to $174.7 million. Borrowings under this agreement are to be used to provide financing for all or a portion of the interest and principal component of certain of its outstanding revenue and revenue refunding bonds coming after 12 months after the date of the line first draw. The agreement is due on December 2013. Interest on outstanding borrowings is charged at the cost of the GDB Lender cost plus 150 basis points, but in any event the rate will not be less than 6% at any time (6% at June 30, 2013). This loan was approved in accordance with Resolution 1684 adopted July 2012. Principal outstanding will be paid from the proceeds of revenue bonds to be issued by the PBA under Section 209 of Resolution 468, Resolution 158 and Resolution 77. At June 30, 2013, the PBA had a balance outstanding of approximately $174.7 million. On August 18, 2010, the GDB provided to the PBA a non-revolving credit facility in the maximum principal amount of $93.6 million bearing interest at a fluctuating annual rate equal to Prime plus 1.50%, provided that such interest shall not be less than 6%, or at such other rate determined by the GDB. The proceeds of the facility were used for construction projects development. The loan is due on June 30, 2014 and will be payable from the proceeds of future revenue refunding bond issuance of the PBA. As of June 30, 2013, $41.3 million were outstanding. The PBA also maintains a $75 million line of credit agreement with the GDB for payment of operational expenses. Borrowings under this line of credit agreement bear interest at a fixed rate of 7%, and are payable upon maturity on June 30, 2018. As of June 30, 2013, $67.2 million were outstanding. In addition, on May 2, 2008, the PBA executed two Loan Agreements with the GDB for the interim financing of its Capital Improvement Program in an amount not to exceed $226 million, bearing interest at 6%. The loans and the accrued interest are due on June 30, 2014 and will be repaid from the proceeds of the future revenue refunding bond issuance of the PBA. The loans are divided

into $209 million on a tax exempt basis and $16.9 million on a taxable basis. As of June 30, 2013, $52.9 million were outstanding.

On February 6, 2003, the Department of Education of the Commonwealth entered into a $25 million line of credit agreement with the GDB for the purchase of equipment and for school improvements. Borrowings under this line of credit agreement bear interest at variable rates based on 125 basis points over three month LIBOR, and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2013, $4.8 million was outstanding. On August 4, 2002, the Department of Education of the Commonwealth entered into an additional $140 million line of credit agreement with the GDB in order to reimburse the Department of the Treasury of the Commonwealth for payments made on their behalf for state funds used to fund federal program expenditures. Borrowings under this line of credit agreement bear interest at variable rates based on 125 basis points over three month LIBOR and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2013, $105.6 million still remains outstanding related to this line of credit agreement. The line of credit is expected to be repaid upon collection of the federal grants.

The Department of Transportation and Public Works of the Commonwealth entered into four line of credit agreements with the GDB amounting to $118 million for improvement and maintenance of roads around the island. Borrowings under these lines of credit bear interest at a 7% rate and are payable upon maturity of the line of credit on June 30, 2018. As of June 30, 2013, $82.6 million was outstanding.

On August 9, 1999, the Department of Agriculture of the Commonwealth entered into a $125 million non-revolving line of credit agreement with the GDB to provide economic assistance to the agricultural sector, which sustained severe damages caused by Hurricane Georges in 1998. As of February 24, 2004, the line of credit increased by $50 million resulting in a total amount of $175 million. Borrowings under this line of credit agreement bear interest at a fixed rate of 7% and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2013, $67.3 million were outstanding.

On October 2, 2002, the Department of Justice of the Commonwealth entered into a $90 million line of credit agreement with the GDB for the financing of 12 public improvement projects for the Municipality of Ponce pursuant to a court order. Borrowings under this line of credit agreement bear interest at variable rates and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2013, $18.4 million related to this line of credit agreement were outstanding. On August 8, 2005, the Department of Justice of the Commonwealth entered into an amended agreement to increase the aforementioned line of credit from $90 million to $110 million to cover various additional projects in Ponce, pursuant to the same court order. Borrowings under the new amended line of credit agreement bear interest at 7% rate and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2013, the balance outstanding under this amended line of credit agreement amounted to $33.5 million.

In August 2003, the Department of Health of the Commonwealth entered into a $30 million line of credit agreement with the GDB in order to repay certain outstanding debts that the PRMeSA had with other agencies and suppliers. Borrowings under this line of credit agreement bear interest at a fixed rate of 7% and are payable upon maturity of the line of credit on June 30, 2018. As of June 30,

2013, $22.1 million related to this line of credit agreement were outstanding. On November 8, 2004, the Department of Health entered into an additional $58.5 million line of credit agreement with the GDB for the financing of a project of the Department of Health and PRMeSA. Borrowings under this line of credit agreement bear interest at variable rates based on 150 basis points over GDB's commercial paper rate and are payable upon the maturity of the line of credit on October 31, 2014. As of June 30, 2013, the outstanding balance of this line of credit agreement amounted to $20.1 million. On February 14, 2008, the Department of Health also entered into an additional $8 million line of credit agreement with the GDB to cover costs of treatment, diagnosis and supplementary expenses during fiscal year 2008 in conformity with Act 150. Borrowings under this line of credit agreement bear interest at variable rates based on 125 basis points over three month LIBOR and are payable upon maturity of the line of credit on June 30, 2040. As of June 30, 2013, the outstanding balance of this line of credit agreement amounted to $3.5 million.

On February 18, 2005, PRIFA entered into a $40 million credit agreement with the GDB for the construction of an auditorium for the Luis A. Ferré Fine Arts Center. Borrowings under this line of credit agreement bear interest at a fixed rate of 7% and are payable upon maturity of the loan agreement on June 30, 2018. Principal and interest payments are being paid from Commonwealth's appropriations. As of June 30, 2013, $4.5 million related to this credit agreement were outstanding. On June 1, 2009, PRIFA entered into an additional revolving line of credit agreement with the GDB to provide financing for costs incurred by PRIFA under certain American Recovery and Reinvestment Act Programs (the ARRA programs). Borrowings under this line of credit agreement bear interest at variable rates based on 150 basis points over the prime rate and are payable upon the maturity of the line of credit on January 31, 2014. This line is being repaid from the cost reimbursements received from the federal government under the ARRA programs and Commonwealth's appropriations. As of June 30, 2013, the outstanding balance of this line of credit agreement amounted to $6.6 million. On March 8, 2012, PRIFA also entered into an additional $35 million line of credit agreement with the GDB for the acquisition, refurbishments and maintenance of certain real estate property that will be subsequently leased to the Commonwealth's Department of Justice. This credit facility is secured by a mortgage lien on the property and is payable from future Commonwealth's appropriations. Currently, the property is under refurbishment and has not been occupied by the intended tenant. This line of credit matures on June 30, 2017 and bears interest at 150 basis points over the prime rate, with a minimum interest rate of 6%. As of June 30, 2013, the outstanding balance of this line of credit agreement amounted to $32.1 million.

On July 29, 2004, the Police Department of the Commonwealth entered into a $48 million line of credit agreement with the GDB for the acquisition of vehicles and high technology equipment. Borrowings under this line of credit agreement bear interest based on the All Inclusive Total Interest Cost of the Medium Term Notes, Series B, plus a markup of 1.25% and are payable upon the maturity of the line of credit on September 30, 2014. The outstanding balance of this line of credit agreement amounted to $33 million at June 30, 2013.

On March 8, 2007, the Department of Housing entered into a $19 million line of credit agreement with the GDB, to reimburse the Puerto Rico Housing Financing Authority, a blended component unit of the GDB for certain advances made for the Santurce Revitalization Project. Borrowings under this line of credit agreement bear interest at a variable rate of three month LIBOR plus 1.25%, not to exceed 4% and are payable upon maturity of the line of credit on June 30, 2040. As of June 30,

2013, the line of credit has an outstanding balance of $8.1 million. On December 3, 2007, the Department of Housing entered into an additional $30 million line of credit agreement with the GDB for the purchase of Juan C. Cordero Dávila building. Borrowings under this line of credit agreement bear interest based on 75 basis points over three month LIBOR and are payable upon maturity of the line of credit on February 28, 2038. As of June 30, 2013, $20.1 million related to this line of credit agreement were outstanding.

On May 12, 2004, the Correction Administration of the Commonwealth entered into a $60 million line of credit agreement with the GDB for improvements to certain correctional facilities. Borrowings under this line of credit agreement bear interest at a fixed 7% rate and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2013, $12.1 million were outstanding. In addition, on November 24, 2010, Correction Administration of the Commonwealth entered into an $80 million line of credit agreement with the GDB for the construction of a new correctional medical center. Borrowings under this line of credit agreement bear interest at a rate per annum equal to Prime Rate as such rate shall change from time to time, plus 150 basis points, effective as of each change in the Prime Rate, but in no event shall such rate be less than 6% per annum nor greater than 12% per annum and were payable originally upon the maturity of the line of credit on January 31, 2013. During fiscal year 2013, the maturity of this line of credit was extended until June 30, 2040. As of June 30, 2013, $43.2 million were outstanding.

On February 15, 2002, the Office of the Superintendent of the Capitol entered into a $35 million line of credit agreement with the GDB for the Office of the Superintendent of the Capitol parking's construction. Borrowings under this line of credit agreement bear interest at a fixed rate of 7% and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2013, $16.1 million remained outstanding from the line of credit agreement. On February 9, 2012, the Office of the Superintendent of the Capitol entered into an additional $15 million line of credit agreement with the GDB for permanent improvements of existing buildings. Borrowings under this line of credit agreement bear interest at 150 basis points over Prime Rate and shall not be less than 6% nor greater than 12% per annum and are payable upon maturity of the line of credit on June 30, 2018. As of June 30, 2013, $9.3 million were outstanding.

On May 7, 2001, the Puerto Rico Court Administration Office (the Office) entered into a $49.4 million non-revolving line of credit agreement with the GDB for operating purposes. Borrowings under this line of credit agreement bear interest at a variable rate of three month LIBOR plus 1%, not to exceed 8%. The Office must deposit $6 million a year, from the total fees collected on the filing of civil cases, in a special fund created by the Department of the Treasury of the Commonwealth, which is pledged for repayment until July 31, 2015. As of June 30, 2013, approximately $13.1 million remains outstanding.

On January 18, 2005, the Department of Recreation and Sports of the Commonwealth (DRS) entered into a $17.2 million line of credit agreement with the GDB for the development of a series of recreational projects at different municipalities. Borrowings under this line of credit agreement bear interest based on 150 basis points over GDB's commercial paper rate and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2013, $0.5 million were outstanding. Also, on February 9, 2004, the DRS entered into a $16 million line of credit agreement with the GDB for the development and improvement of recreational facilities. Borrowings under this line of

credit agreement bear interest on the unpaid principal amount of each advance at a fixed rate of 7% and are payable upon the maturity of the line of credit on June 30, 2018. As of June 30, 2013, $0.5 million were outstanding. An additional line of credit agreement was entered into between the GDB and the DRS in the maximum principal amount of $17.6 million bearing interest on the unpaid principal amount of each advance at a fixed rate of 7% and are payable upon the maturity of the line of credit on June 30, 2018. The line of credit proceeds were used for development and improvement of recreational facilities. As of June 30, 2013, $8.6 million were outstanding.

On February 14, 2012, the Office of Veterans' Affairs entered into a $7.5 million line of credit agreement with the GDB for betterments to the Veterans' House in Juana Diaz and for phase I of the Veterans' Graveyard Construction. Borrowings under this line of credit agreement bear interest at a rate that will not be less than 6% nor greater than 12% per annum and are payable upon maturity of the line of credit on March 31, 2015. As of June 30, 2013, $290 thousand were outstanding.

As of July 1, 1999, debts of approximately $102 million payable to UPR, a discretely presented component unit, in relation to outstanding noninterest bearing debt accumulated in prior years by Health Facility and Services Administration (HFSA) were transferred to the Commonwealth. On September 7, 2004, additional debts of approximately $71.2 million were also restructured and combined with the previous financing arrangement. As of June 30, 2013, $1.9 million remains outstanding of this arrangement. The Commonwealth has also agreed to pay the UPR $20 million related to Commonwealth legislative scholarships for fiscal years 2008 and 2009, which are payable in annual installments of $5 million. As of June 30, 2013, $10 million remains outstanding. Future amounts required to pay principal balances at June 30, 2013 are expected to be as follows (expressed in thousands):

Year ending June 30:		
2014	$	6,920
2015		5,000
Total	$	11,920

The noninterest bearing note payable to PREPA, a discretely presented component unit, consisted of a fuel adjustment subsidy due by the Commonwealth and the refinancing during 2004 of other accumulated debt by the Commonwealth's agencies with PREPA. The outstanding balance of $6.3 million existing at June 30, 2012 was fully repaid during fiscal year 2013.

The Commonwealth has also financed a long term liability through the GDB within its business type activities, with a line of credit agreement to Puerto Rico Medical Services Administration (PRMeSA), a component unit that became blended effective July 1, 2012. On October 14, 2010, the Legislature of the Commonwealth approved a new article 9A to Act No. 66 of June 22, 1978, by which it authorized PRMeSA to incur on an obligation of up to $285 million to be deposited in a special GDB account and to be used for payment of debts to suppliers, agencies and a reserve fund for self-insurance of PRMeSA, and to provide operational liquidity to ease PRMSA's fiscal situation. The GDB was named fiscal agent to administer and monitor the use of these funds. The Commonwealth will honor the payment of this obligation with appropriations to be made every year until fiscal year 2023-2024. Borrowings under this line of credit agreement bear interest at variable

rates based on 150 basis points over the prime rate. As of June 30, 2013, $273.3 million were outstanding.

With the exception of a few lines of credit having a defined source of repayment, the remaining lines of credit described above used Commonwealth appropriations as the source of repayment until June 30, 2007. Beginning in fiscal year 2008, these lines of credit were repaid or refunded with a combination of Commonwealth appropriations and COFINA under the mechanism described in note 12(d).

(g) *Compensated Absences*

Long term liabilities include approximately $1.5 billion and $18.0 million of accrued compensated absences recorded as governmental and business type activities, respectively, at June 30, 2013.

(h) *Net Pension Obligation*

The amount reported as net pension obligation in the governmental activities of approximately $13.1 billion at June 30, 2013, represents the cumulative amount owed by the Commonwealth for the unfunded prior years' actuarially required pension contributions to the ERS, JRS, and TRS (collectively known as the pension plans) (see note 17).

(i) *Net Postemployment Benefit Obligation*

The amount reported as net postemployment benefit obligation in the governmental activities and business-type activities of approximately $278.3 million and $1.6 million, respectively, at June 30, 2013 represents the cumulative amount owed by the Commonwealth for the unfunded prior years' actuarially required other postemployment benefit contributions to the ERS MIPC, JRS MIPC, and TRS MIPC (see note 18) in the case of governmental activities and to other postemployment plans in the case of business-type activities.

(j) *Unpaid Lottery Prizes*

The amount reported as unpaid lottery prizes represents the lottery prizes payable of the Lottery of Puerto Rico (commonly known as Traditional Lottery) and the Additional Lottery System (commonly known as Lotto) jointly known as the Lottery Systems at June 30, 2013. The minimum annual payments related to unpaid awards of both lotteries are as follows (expressed in thousands):

		Principal	Interest	Total
Year ending June 30:				
2014	$	49,489	10,132	59,621
2015		19,583	9,950	29,533
2016		17,398	10,034	27,432
2017		15,359	9,927	25,286
2018		13,245	9,457	22,702
2019 – 2023		41,067	35,784	76,851
2024 – 2028		16,385	16,040	32,425
2029 – 2032		3,666	3,001	6,667
Total	$	176,192	104,325	280,517

The minimum annual payments related to unpaid awards of Lotto include an unclaimed prizes liability of approximately $13.6 million at June 30, 2013, which is reported as prizes payable – current portion.

The liability for unpaid lottery prizes is reported in the accompanying statement of net position – business – type activities and statement of net position – proprietary funds.

(k) *Claims Liability for Insurance Benefits*

The Commonwealth provides unemployment compensation, occupational disability, and drivers' insurance coverage to public and private employees through various insurance programs administered by the Department of Labor and Human Resources of the Commonwealth. These insurance programs cover workers against unemployment, temporary disability, or death because of work or employment related accidents or because of illness suffered as consequence of their employment.

	Unemployment		Other proprietary funds		Totals	
	2013	2012	2013	2012	2013	2012
Liability for incurred but unpaid benefits and benefit adjustment expenses at July 1	$ 72,161	85,784	833	554	72,994	86,338
Total incurred benefits	387,336	486,340	3,229	4,037	390,565	490,377
Total benefit payments	(390,932)	(499,963)	(3,241)	(3,758)	(394,173)	(503,721)
Liability for incurred but unpaid benefits and benefit adjustment expenses at June 30	$ 68,565	72,161	821	833	69,386	72,994

The Commonwealth establishes liabilities for incurred but unpaid benefits and benefit adjustment expenses based on the ultimate cost of settling the benefits. Insurance benefit claim liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The liability for insurance benefits claims is reported as insurance benefits payable in the accompanying statement of net position business type activities – and statement of net position proprietary funds. The liability as of June 30, 2013, amounts to approximately $69.4 million.

(l) *Obligations under Capital Lease Arrangements*

The Commonwealth is obligated under capital leases with third parties that expire through 2038 for land, buildings, and equipment.

The present value of future minimum capital lease payments at June 30, 2013 reported in the accompanying government-wide statement of net position is as follows (expressed in thousands):

Year ending June 30:		
2014	$	19,487
2015		19,257
2016		19,202
2017		19,114
2018		18,106
2019 – 2023		85,707
2024 – 2028		85,707
2029 – 2033		65,346
2034 – 2038		17,262
Total future minimum lease payments		349,188
Less amount representing interest costs		(171,846)
Present value of minimum lease payments	$	177,342

Leased land, buildings, and equipment under capital leases in capital assets at June 30, 2013, include the following (expressed in thousands):

Land	$	7,960
Buildings		254,886
Equipment		4,215
Subtotal		267,061
Less accumulated amortization		(63,890)
Total	$	203,171

Amortization charge applicable to capital leases and included within depreciation expense of capital assets amounted to $6.5 million in 2013.

(m) ***Termination Benefits Payable***

Voluntary Termination Benefits – On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides early retirement benefits or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70 applies to agencies and component units whose budgets are funded in whole or in part by the General Fund.

Act No. 70 established that early retirement benefits (early retirement program) will be provided to eligible employees that have completed between 15 to 29 years of credited services in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50% of each employee's salary,

as defined. Pursuant to Act No. 70, the Commonwealth, as employer, will continue making the applicable employer contributions to the Retirement System, as well as covering the annuity payments to the employees opting for the early retirement, until both the years of service and age requirements for full vesting would have occurred, at which time the applicable Retirement System will continue making the annuity payments.

Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System (incentivized resignation program) or who have at least 30 years of credited service in the Retirement System and the age for retirement or who have the age for retirement (incentivized retirement program). Economic incentives will consist of a lump sum payment ranging from one month to six month salary based on employment years.

Additionally, eligible employees that choose to participate in the early retirement program or in the incentivized resignation program are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Commonwealth.

In addition, Act No. 70 allows certain component units of the Commonwealth that operate with their own resources to implement a similar program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. The benefits and the requirements are the same provided by Act No. 70, except as follows: in the early retirement benefit program, the component unit will make the employee and the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System; and in the incentivized retirement program, the component unit will make the employee and the employer contributions to the Retirement System for a five year period.

The following table summarized the financial impact resulting from the benefits granted to participants of Act No. 70 and similar programs in the government wide financial statements as of and for the year ended June 30, 2013 (expressed in thousands):

		Primary government			
Accrued voluntary termination		**Governmental activities**	**Business-type activities**	**Totals primary government**	**Component units**
Benefits as of June 30, 2013:					
Current liabilities	$	101,178	733	101,911	11,765
Noncurrent liabilities		993,263	5,659	998,922	223,853
Total	$	1,094,441	6,392	1,100,833	235,618
Expenses for the year ended June 30, 2013	$	532,146	1,242	533,388	39,470

At June 30, 2013, unpaid long term benefits granted on Act No. 70 were discounted at interest rates that ranged from 0.80% to 2.90% at the primary government level and from 0.30% to 3.37% at the component units level.

By Act No. 70, the General Fund of the Commonwealth must appropriate on an annual basis funds necessary to cover the annual payments of Act No. 70 on certain components units. Discounted termination benefits payable of these component units amounted to approximately $85 million as of June 30, 2013.

(n) ***Other Long Term Liabilities***

The remaining long term liabilities of governmental activities at June 30, 2013 include (expressed in thousands):

Liability for legal claims and judgments (note 16)	$	1,639,698
Liability to U.S. Army Corps of Engineers (note 10)		202,657
Accrued Employees' Christmas bonus		132,456
Liability for federal cost disallowances (note 16)		68,252
Liability to the Puerto Rico System of Annuities and Pensions for Teachers		21,528
Other		32,081
Total	$	2,096,672

As described in note 10, the Commonwealth has a debt obligation with the U.S. Army Corps of Engineers in relation to its estimated allocated share of the construction costs associated with the Cerrillos Dam and Reservoir Project. Late in April 2011, the Commonwealth received a final debt agreement from the U.S. Army Corps of Engineers establishing a repayment schedule for its allocated share of the construction costs associated with the Cerrillos Dam and Reservoir Project, amounting to $214 million, excluding those costs for items built for recreational purposes. The unpaid allocated share of these construction costs amounted to $188 million, plus accrued interest of $43 million, at June 30, 2013 and it is payable on annual installment payments. The expected maturity date of this debt obligation is June 5, 2046. Due payments of principal and interest on this debt obligation, including late fees, amounted to $5 million and $43 million, respectively, at June 30, 2013 and were recorded in the accompanying the General Fund's financial statements as of June 30, 2013. This debt obligation bore interest at 6.063%.

On October 10, 2012, following a 30 days payment notice issued on August 15, 2012 by the U.S. Army Corps of Engineers to the Secretary of the Treasury of the Commonwealth demanding payment of the amounts due and payable for $190,164,357 associated with the Cerrillos Dam and Reservoir Project, the U.S. Army Corps of Engineers placed such debt into the U.S. Department of the Treasury Offset Program (the Offset Program). Upon placing this debt under the Offset Program, the U.S. Department of the Treasury withheld federal funding, otherwise directed to certain Commonwealth's agencies and instrumentalities recipients, in order to repay the aforementioned amount due on behalf of the U.S. Army Corps of Engineers. As interest penalties had continued to accrue, the balance that was subject to the Offset Program amounted to $190,644,452 at September 15, 2012. Through May 13, 2013, the amounts withheld under the Offset Program and applied to the debt amounted to $157.8 million. On May 15, 2013, the Secretary of the Treasury of the Commonwealth requested the U.S. Army Corps of Engineers an immediate stay of the Offset Program and the forgiveness of the cumulative penalty interests accrued since 1998. During the seven months period ended in May, 2013 (period during which the Offset Program was in place), the

Offset Program impacted the following federal programs (expressed in thousands):

Rum Taxes Program	$	117,331
Department of Education		36,918
Regional Analytical Service Program		2,067
Office of the Veteran's Ombudsman		1,042
Others		458
Total	$	157,816

On March 21, 2014, the US Army Corps of Engineers approved a new payment plan proposed by the Secretary of the Treasury for this debt obligation. This new payment plan consists of 33 annual payments of $7,076,760, including interests at 1.5%, from June 7, 2014 until June 7, 2046. As part of this new payment plan, the US Army Corps of Engineers waived all cumulative penalty interest and fees. The new payment plan reduces prospectively the total debt service amount reflected at June 30, 2013 on this debt obligation by approximately $232.3 million.

Debt service requirements on this debt obligation with fixed maturities at June 30, 2013 were as follows (expressed in thousands):

		Principal	Interest	Total
Year ending June 30:				
2014	$	9,290	2,747	12,037
2015		4,395	2,682	7,077
2016		4,461	2,616	7,077
2017		4,527	2,550	7,077
2018		4,595	2,482	7,077
2019 – 2023		24,032	11,352	35,384
2024 – 2028		25,889	9,495	35,384
2029 – 2033		27,890	7,494	35,384
2034 – 2038		30,045	5,339	35,384
2039 – 2043		32,367	3,017	35,384
2044 – 2048		20,609	620	21,229
Total	$	188,100	50,394	238,494

In addition, the Commonwealth has a debt obligation of $14.6 million with the U.S. Army Corps of Engineers in relation to its estimated allocated share of the construction costs associated with the recreational part of the Cerrillos Dam and Reservoir Project, including accrued interest of approximately $4 million, at June 30, 2013. The final debt agreement with the U.S. Army Corps of Engineers for the recreational part of the Cerrillos Dam and Reservoir Project has not been finalized, and therefore, terms and conditions could differ from those estimated. The related debt is expected to be payable on annual installment payments over a 35 year period. However, the debt has been presented as a long term payable after one year in the accompanying statement of net position since the commencement date of repayment has not yet been determined.

The remaining other long-term liabilities within business-type activities at June 30, 2013 are composed primarily of accrued pension costs and accrued legal claims for approximately $18.3 million and $4.8 million, respectively.

(o) ***Fiduciary Funds***

On February 27, 2007, ERS's administration and the GDB, acting as ERS's fiscal agent (the Fiscal Agent), presented to the board of trustees, a financial transaction for the issuance of pension funding bonds in order to reduce ERS's unfunded actuarial accrued liability. The ERS authorized the issuance of one or more series of bonds (the ERS Bonds) in order to increase the funds available to pay pension benefits to certain of its beneficiaries and reduce its unfunded accrued actuarial pension liability. The ERS Bonds are limited, non-recourse obligations of the ERS, payable solely from and secured solely by a pledge of employer contributions made after the date of issuance of the first series of ERS Bonds, and from funds held on deposit with the Bank of New York Mellon (the Fiscal Agent). The ERS Bonds are not payable from contributions made to the ERS by participating employees, or from the assets acquired with the proceeds of the ERS Bonds, or from employer contributions released by the Fiscal Agent to the ERS after funding of required reserves, or from any other asset of the ERS. The ERS invested the proceeds of the ERS Bonds and used these investments and the earnings thereon to provide pension benefits to its beneficiaries.

On January 31, 2008, the ERS issued the first series of ERS Bonds, which consisted of approximately $1,589 million aggregate principal amount of Senior Pension Funding Bonds, Series A (the Series A Bonds). On June 2, 2008, the ERS issued the second of such series of ERS Bonds; which consisted of approximately $1,059 million aggregate principal amount of Senior Pension Funding Bonds, Series B (the Series B Bonds). Finally, on June 30, 2008, the ERS issued the third and final of such series of ERS Bonds, which consisted of approximately $300 million aggregate principal amount of Senior Pension Funding Bonds, Series C (the Series C Bonds). The following is a summary of changes in the bonds payable principal balance (expressed in thousands):

	Maturity		Balance at June 30, 2012	Additions/ accretion	Balance at June 30, 2013
5.85% to 6.45% Term and Capital Appreciation Bonds Series A	2023-2058	$	1,602,749	3,713	1,606,462
6.25% to 6.55% Term and Capital Appreciation Bonds Series B	2028-2058		1,129,989	20,479	1,150,468
6.15% to 6.50% Term and Capital Appreciation Bonds Series C	2028-2043		300,848	188	301,036
Bond discounts			(6,993)	216	(6,777)
Total		$	3,026,593	24,596	3,051,189

As of June 30, 2013, the outstanding principal balance of the ERS Bonds is as follows (in thousands):

Description		
Series A Bonds:		
Capital Appreciation Bonds, maturing in 2028, bearing interest at 6.20%	$	62,692
Term Bonds, maturing in 2023, bearing interest at 5.85%		200,000
Term Bonds, maturing from 2031 through 2038, bearing interest at 6.15%		679,000
Term Bonds, maturing from 2039 through 2042, bearing interest at 6.20%		332,770
Term Bonds, maturing from 2055 through 2058, bearing interest at 6.45%		332,000
Total Series A Bonds outstanding		1,606,462
Series B Bonds:		
Capital Appreciation Bonds, maturing from 2028 through 2030, bearing interest at 6.40%		194,401
Capital Appreciation Bonds, maturing from 2031 through 2034, bearing interest at 6.45%		139,967
Term Bonds, maturing in 2031, bearing interest at 6.25%		117,100
Term Bonds, maturing from 2036 through 2039, bearing interest at 6.30%		270,000
Term Bonds, maturing from 2055 through 2058, bearing interest at 6.55%		429,000
Total Series B Bonds outstanding		1,150,468
Series C Bonds:		
Capital Appreciation Bonds, maturing in 2030, bearing interest at 6.50%		3,036
Term Bonds, maturing in 2028, bearing interest at 6.15%		110,000
Term Bonds, maturing in 2038, bearing interest at 6.25%		45,000
Term Bonds, maturing in 2043, bearing interest at 6.30%		143,000
Total Series C Bonds outstanding		301,036
Total bonds outstanding		3,057,966
Less bonds discount		(6,777)
Bonds payable – net	$	3,051,189

Series A Bonds – The aggregate principal amount of the Series A Bonds issued amounted to approximately $1,589 million of which $1,544 million were issued as term bonds (the Series A Term Bonds) and $45 million were issued as capital appreciation bonds (the Series A Capital Appreciation Bonds). Interest in the Series A Term Bonds are payable monthly on the first day of each month. Interest on the Series A Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Capital Appreciation Bonds on each January 1 and July 1 (Compounding Dates), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360 day year consisting of twelve 30 day months. The Series A Bonds are subject to redemption at the option of the ERS from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series A Capital Appreciation Bonds, the accreted amount) of the Series A Bonds, plus accrued interest to the redemption date, and without premium.

In addition, the following Series A Term Bonds are subject to mandatory redemption in part commencing on July 1, 2021 to the extent of the sinking fund requirement for said bonds set forth below at a redemption price equal to 100% of the principal amount thereof plus accrued interest as follows (in thousands):

Redemption Period	Subject Bonds		Amount
July 1, 2021	Term bonds maturing July 1, 2023	$	50,000
July 1, 2022	Term bonds maturing July 1, 2023		70,000
July 1, 2023	Term bonds maturing July 1, 2023		80,000
	Subtotal		200,000
July 1, 2034	Term bonds maturing July 1, 2038		133,500
July 1, 2035	Term bonds maturing July 1, 2038		133,500
July 1, 2036	Term bonds maturing July 1, 2038		133,500
July 1, 2037	Term bonds maturing July 1, 2038		133,500
July 1, 2038	Term bonds maturing July 1, 2038		133,500
	Subtotal		667,500
	Total	$	867,500

ERS complied with the sinking fund requirements at June 30, 2013.

Series B Bonds – The aggregate principal amount of the Series B Bonds amounted to approximately $1,059 million of which $816 million were issued as term bonds (the Series B Term Bonds) and $243 million were issued as capital appreciation bonds (the Series B Capital Appreciation Bonds). Interest in the Series B Term Bonds are payable monthly on the first day of each month. Interest on the Series B Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Series B Capital Appreciation Bonds on each January 1 and July 1 (Compounding Dates), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360 day year consisting of twelve 30 day months. The Series B Bonds are subject to redemption at the option of the ERS from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series B Capital Appreciation Bonds, the accreted amount) of the Series B Bonds, plus accrued interest to the redemption date, and without premium.

Series C Bonds – The aggregate principal amount of the Series C Bonds amounted to approximately $300 million of which $298 million were issued as term bonds (the Series C Term Bonds) and $2 million were issued as capital appreciation bonds (the Series C Capital Appreciation Bonds). Interest in the Series C Term Bonds are payable monthly on the first day of each month. Interest on the Series C Capital Appreciation Bonds are not payable on a current basis, but are added to the principal of the Series C Capital Appreciation Bonds on each January 1 and July 1 (Compounding Dates), and are treated as if accruing in equal daily amounts between Compounding Dates, until paid at maturity or upon redemption. Interest shall be computed on the basis of a 360 day year consisting of twelve 30 day months. The Series C Bonds are subject to redemption at the option of the ERS

from any source, in whole or in part at any time on or after July 1, 2018, at a redemption price equal to the principal amount (in the case of Series C Capital Appreciation Bonds, the accreted amount) of the Series C Bonds, plus accrued interest to the redemption date, and without premium.

In addition, the following Series C Term Bonds are subject to mandatory redemption in part commencing on July 1, 2024 to the extent of the sinking fund requirement for said bonds set forth below at a redemption price equal to 100% of the principal amount thereof plus accrued interest as follows (in thousands):

Redemption Period	Subject Bonds	Amount
July 1, 2024	Term bonds maturing July 1, 2028	$ 18,700
July 1, 2025	Term bonds maturing July 1, 2028	22,000
July 1, 2026	Term bonds maturing July 1, 2028	29,150
July 1, 2027	Term bonds maturing July 1, 2028	36,300
July 1, 2028	Term bonds maturing July 1, 2028	3,850
	Subtotal	110,000
July 1, 2029	Term bonds maturing July 1, 2038	100
July 1, 2030	Term bonds maturing July 1, 2038	540
July 1, 2031	Term bonds maturing July 1, 2038	100
July 1, 2032	Term bonds maturing July 1, 2038	3,420
July 1, 2033	Term bonds maturing July 1, 2038	4,320
July 1, 2034	Term bonds maturing July 1, 2038	100
July 1, 2035	Term bonds maturing July 1, 2038	11,940
July 1, 2036	Term bonds maturing July 1, 2038	2,160
July 1, 2037	Term bonds maturing July 1, 2038	7,920
July 1, 2038	Term bonds maturing July 1, 2038	14,400
	Subtotal	45,000
July 1, 2039	Term bonds maturing July 1, 2043	28,600
July 1, 2040	Term bonds maturing July 1, 2043	28,600
July 1, 2041	Term bonds maturing July 1, 2043	28,600
July 1, 2042	Term bonds maturing July 1, 2043	28,600
July 1, 2043	Term bonds maturing July 1, 2043	28,600
	Subtotal	143,000
	Total	$ 298,000

ERS complied with the sinking fund requirements at June 30, 2013.

Debt service requirements in future years on ERS's bonds as of June 30, 2013 are as follows (expressed in thousands):

		Principal	Interest	Total
Year ending June 30:				
2014	$	—	166,519	166,519
2015		—	166,519	166,519
2016		—	166,519	166,519
2017		—	166,519	166,519
2018		—	166,519	166,519
2019 – 2023		120,000	823,233	943,233
2024 – 2028		186,150	760,552	946,702
2029 – 2033		1,054,405	725,324	1,779,729
2034 – 2038		960,885	603,205	1,564,090
2039 – 2043		730,070	320,472	1,050,542
2044 – 2048		28,600	247,718	276,318
2049 – 2053		—	247,568	247,568
2054 – 2058		539,900	179,875	719,775
2059		221,100	1,201	222,301
		3,841,110	4,741,743	8,582,853
Less unaccreted interest		(783,144)		
Less unamortized discount		(6,777)		
Total	$	3,051,189		

Pledge of Employer Contributions Pursuant to Security Agreement – The ERS entered into a Security Agreement with the Fiscal Agent for the benefit of the bondholders, pursuant to which the ERS pledged to the Fiscal Agent, and granted the Fiscal Agent a security interest in employer contributions made after January 31, 2008, which was the date of issuance of the first series of bonds, and the funds on deposit with the Fiscal Agent under the various accounts established under the Pension Funding Bond Resolution (the Resolution).

The Resolution and the Security Agreement constitute a contract between the ERS and the Fiscal Agent, on behalf of owners of the bonds. The pledge, covenants and agreements of the ERS set forth in the Resolution and the Security Agreement shall be for the equal benefit, protection and security of the owners of the bonds, regardless of time or times of their issuance or maturity, and shall be of equal rank, without preference, priority or distinction of any of the bonds over any other bond, except as expressly provided in or permitted by the Resolution. Annual employer contributions that are made after January 31, 2008, which was the date of issuance of the first Series of bonds, in accordance with the Act and amounts on deposit in the different accounts created pursuant to the Resolution for the benefits of the owners of the bonds, are pledged for annual debt service requirements as established. The pledge is irrevocable so long as any bonds are outstanding under the terms of the Resolution.

(p) ***Discretely Presented Component Units***

Notes, bonds and appropriation bonds payable are those liabilities that are paid out of the component units' own resources. These obligations do not constitute a liability or debt of the primary government.

The outstanding balance of notes payable at June 30, 2013 is as follows (expressed in thousands):

	Interest rates	Maturity through	Balance at June 30, 2012	Additions	Reductions	Balance at June 30, 2013	Due within one year
Government Development Bank for Puerto Rico	1.59% – 6.97%	2040	$ 5,350,364	569,123	1,078,748	4,840,739	389,651
Economic Development Bank for Puerto Rico	2.25% – 7.23%	2031	726,141	150,003	173,096	703,048	—
Puerto Rico Ports Authority	Variable	2027	93,300	1,487	76,214	18,573	6,789
Puerto Rico Electric Power Authority	3.25% – 4.375%	2023	574,031	1,468,737	1,280,552	762,216	754,922
Puerto Rico Trade and Export Company	4.51% – 6.48%	2034	390,531	—	19,119	371,412	520
University of Puerto Rico	3.25% – 5.50%	2014	3,604	—	1,331	2,273	839
Puerto Rico Industrial Development Company	5.10% – 8.45%	2024	92,732	—	6,574	86,158	7,044
Puerto Rico Tourism Company	Variable	2013	11,570	4,544	—	16,114	16,114
State Insurance Fund Corporation	Variable	2028	279,651	—	4,489	275,162	21,160
Puerto Rico Metropolitan Bus Authority	2.62%	2015	37,048	—	2,503	34,545	2,503
Agricultural Enterprises and Development Administration	4.54%	2013	1,830	36,341	18,772	19,399	19,399
			$ 7,560,802	2,230,235	2,661,398	7,129,639	1,218,941

Debt service requirements on component units' notes payable with fixed maturities at June 30, 2013 were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2014	$ 1,218,941	271,725	1,490,666
2015	624,284	261,546	885,830
2016	705,433	234,765	940,198
2017	423,804	205,054	628,858
2018	284,083	181,052	465,135
2019 – 2023	2,281,203	487,498	2,768,701
2024 – 2028	1,192,966	125,344	1,318,310
2029 – 2033	328,242	55,132	383,374
2034 – 2038	50,846	12,981	63,827
2039 – 2040	19,837	2,473	22,310
Total	$ 7,129,639	1,837,570	8,967,209

Commonwealth appropriation bonds payable outstanding at June 30, 2013 are as follows (expressed in thousands):

Component Unit	Interest rates	Maturity through	Balance at June 30, 2012	Additions	Reductions	Balance at June 30, 2013	Amounts due within one year
Puerto Rico Aqueduct and Sewer Authority	3.10% – 6.15%	2032	$ 398,049	703	205	398,547	—
Puerto Rico Tourism Company	3.10% – 6.15%	2032	43,484	78	—	43,562	—
Land Authority of Puerto Rico	3.10% – 6.50%	2032	55,178	1,098	—	56,276	—
Government Development Bank for Puerto Rico	3.10% – 6.50%	2032	3,427	8	4	3,431	—
Solid Waste Authority	3.10% – 6.50%	2032	7,778	51	—	7,829	—
Total Commonwealth appropriation bonds – component units			$ 507,916	1,938	209	509,645	—

Debt service requirements on the Commonwealth's appropriation bonds payable with fixed maturities at June 30, 2013 were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2014	$ —	29,123	29,123
2015	—	29,123	29,123
2016	10,601	28,925	39,526
2017	8,600	28,615	37,215
2018	8,895	28,295	37,190
2019 – 2023	50,160	135,477	185,637
2024 – 2028	164,146	120,053	284,199
2029 – 2033	280,409	27,789	308,198
Premium	7,784	—	7,784
Deferred loss	(20,950)	—	(20,950)
Total	$ 509,645	427,400	937,045

Bonds payable outstanding at June 30, 2013 are as follows (expressed in thousands):

Component Unit	Interest rates	Maturity through	Balance at June 30, 2012	Additions	Reductions	Balance at June 30, 2013	Amount due within one year
Government Development Bank for Puerto Rico	2.96% – 6.56%	2039	$ 607,766	—	137,202	470,564	35,832
University of Puerto Rico	5.0% – 5.75%	2036	614,449	—	32,641	581,808	20,070
Puerto Rico Municipal Finance Agency	3.80% – 6.00%	2031	1,003,532	1,647	96,647	908,532	101,580
Puerto Rico Ports Authority	2.75% – 6.0%	2027	676,791	21,734	483,633	214,892	—
Puerto Rico Aqueduct and Sewer Authority	2.0% – 6.15%	2050	4,097,149	48,583	21,553	4,124,179	16,900
Puerto Rico Highways and Transportation Authority	2.25% – 6.50%	2046	4,893,002	30,049	190,225	4,732,826	101,875
Puerto Rico Industrial Development Company	5.10% – 6.75%	2029	225,271	456	28,558	197,169	8,305
Puerto Rico Convention Center District Authority	4.00% – 5.00%	2036	446,462	—	10,380	436,082	9,845
Puerto Rico Electric Power Authority	2.00% – 6.25%	2042	8,311,689	—	185,056	8,126,633	399,215
Total bonds payable-component units			$ 20,876,111	102,469	1,185,895	19,792,685	693,622

Debt service requirements on component units' bonds payable with fixed maturities at June 30, 2013 were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2014	$ 693,622	980,028	1,673,650
2015	560,163	976,873	1,537,036
2016	807,217	945,161	1,752,378
2017	573,255	913,535	1,486,790
2018	1,694,173	2,139,707	3,833,880
2019 – 2023	3,472,812	3,631,606	7,104,418
2024 – 2028	3,611,663	2,724,007	6,335,670
2029 – 2033	2,813,496	1,915,443	4,728,939
2034 – 2038	3,284,832	1,115,602	4,400,434
2039 – 2043	1,416,611	445,903	1,862,514
2044 – 2048	694,689	110,351	805,040
2049 – 2050	20,760	1,608	22,368
Premium	540,510	—	540,510
Discount	(213,647)	—	(213,647)
Deferred loss	(177,471)	—	(177,471)
Total	$ 19,792,685	15,899,824	35,692,509

The table that follows represents debt service payments on two component units' variable-rate bonds and the net payments on associated hedging derivative instrument as of June 30, 2013 (in thousands). Although interest rates on variable rate debt and the current reference rate of hedging derivative instrument change over time, the calculations included in the table below are based on the assumption that the variable rate and the current reference rate of the hedging derivative instrument on June 30, 2013 will remain the same for their term (expressed in thousands).

		Variable-Rate Bonds		Hedging derivative instruments, net	Total
		Principal	Interest		
Year ending June 30:					
2014	$	—	9,523	34,528	44,051
2015		—	9,523	34,528	44,051
2016		—	9,523	34,523	44,046
2017		88,465	9,523	115,258	213,246
2018		195,025	9,345	99,754	304,124
2019-2023		46,055	45,197	127,894	219,146
2024-2028		14,570	40,332	121,549	176,451
2029-2033		325,675	18,018	78,973	422,666
2034-2038		—	14,279	17,368	31,647
2039-2043		—	14,279	—	14,279
2044-2048		389,060	1,855	—	390,915
Total	$	1,058,850	181,397	664,375	1,904,622

Several component units have defeased certain revenue bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old debts. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the statement of net position. As of June 30, 2013, the following bonds are considered defeased (expressed in millions):

		Amount outstanding
Puerto Rico Electric Power Authority	$	3,952
Puerto Rico Highways and Transportation Authority		1,980
Puerto Rico Municipal Finance Agency		299
Total	$	6,231

(13) Guaranteed and Appropriation Debt

(a) *Guaranteed Debt*

The Commonwealth may provide guarantees for the repayment of certain borrowings of component units to carry out designated projects. At June 30, 2013, the following component unit debts are guaranteed by the Commonwealth (expressed in thousands):

		Maximum guarantee	Outstanding balance
Blended component unit – Public Buildings Authority	$	4,721,000	4,196,675
Discretely presented component units:			
Government Development Bank for Puerto Rico		267,000	267,000
Puerto Rico Aqueduct and Sewer Authority		1,159,562	1,159,562
Port of the Americas Authority		250,000	220,392
Total	$	6,397,562	5,843,629

The Commonwealth has guaranteed the payments of rentals of its departments, agencies, and component units to the PBA, a blended component unit, under various lease agreements executed pursuant to the law that created the PBA. Such rental payments include the amounts required by the PBA for the payment of principal and interest on the guaranteed debt as authorized by law. The rental commitment to cover principal and interest on the guaranteed debt (excluding premiums and deferred refunding losses) as of June 30, 2013 and for the next five years and thereafter follows (expressed in thousands):

		Principal	Interest	Total
Year ending June 30:				
2014	$	72,595	200,167	272,762
2015		76,760	194,488	271,248
2016		82,000	190,244	272,244
2017		86,125	185,685	271,810
2018		90,905	179,678	270,583
2019-2023		416,970	1,000,906	1,417,876
2024-2028		512,015	870,096	1,382,111
2029-2033		1,453,937	942,907	2,396,844
2034-2038		747,695	307,200	1,054,895
2039-2043		764,190	103,730	867,920
	$	4,303,192	4,175,101	8,478,293
Less unamortized discounts on bonds outstanding		(29,519)		
Plus unamortized premium		48,153		
Less deferred loss on bonds defeased		(125,151)		
Total	$	4,196,675		

Rental income of the PBA funds amounted to approximately $206 million during the year ended June 30, 2013, of which $75.5 million was used to cover debt service obligations.

Government Development Bank for Puerto Rico Remarketed Refunding Bonds – The Commonwealth guarantees the Remarketed Refunding Bonds, Series 1985, issued by the GDB, a discretely presented component unit. The outstanding balance of these bonds amounted to $267 million at June 30, 2013. On August 1, 2008, the GDB repurchased the $267 million outstanding of its adjustable refunding bonds as a result of significant increases in the interest rate of these auction rate bonds. On December 30, 2009, the GDB remarketed and reissued these bonds at a fixed rate of 4.75%, maturing on December 1, 2015. These notes are subject to redemption at the option of the GDB on or after June 1, 2013 at a redemption price of 101% through May 31, 2014 and 100% after June 1, 2014.

Puerto Rico Aqueduct and Sewer Authority (PRASA) – Act No. 45 of July 28, 1994 states that the Commonwealth guarantees the payment of principal and interest of all outstanding bonds at the date the law was enacted and of all future bond issues to refinance those outstanding bonds of PRASA. Act No. 140 of August 3, 2000 amended Act No. 45 to extend the Commonwealth guarantee to include the principal and interest payments of the Rural Development Serial Bonds and the loans under the State Revolving Fund Program (SRFP) outstanding at the effective date of Act No. 140, and of all future bonds and SRFP loans that may be issued through June 30, 2005. Act No. 386 of September 21, 2004 extended the Commonwealth guarantee to June 30, 2010. Act. No. 75 of July 12, 2010 amended section 1 of Act No. 45 of July 28, 1994 to extend the Commonwealth guarantee over the Rural Development and SRFP's borrowings to June 30, 2015.

United States Department of Agriculture (USDA) Rural Development Program assists the Authority in the financing and construction of aqueduct and sewer facilities in rural areas by purchasing revenue bonds from the Authority, the proceeds of which are used by the Authority to finance such projects. GDB provides interim financing for these projects through short-term lines of credit. On June 12, 2013, the Authority issued approximately $45.5 million of Series II of USDA Rural Development Program Bonds, at a maximum interest of 3.50%, payable semiannually and maturing in semiannually installments through July 1, 2053. The funds raised by this issuance were used to partially repay the outstanding balance of USDA Rural Development Program lines of credit for construction projects from GDB. As of June 30, 2013, the USDA Rural Development Program Bonds consisted of twenty-six (26) separate series, issued from 1983 through 2013, bearing interest from 2% to 5% due in semiannual installments through 2053. The outstanding balance of the USDA Rural Development Program Serial Bonds as of June 30, 2013 and 2012 was approximately $405 million and $368.5 million, respectively. The USDA Rural Development Program Serial Bonds are guaranteed by the Commonwealth, pursuant to Law No. 140 of 2000 as amended and the Authority's net revenue is pledged toward the payment of debt service on the USDA Rural Development Program Bonds. The USDA Rural Development Program Bonds are subordinate to all senior and senior subordinated debt.

The Puerto Rico Water Pollution Control Revolving Fund and Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund (the Revolving Funds) were created by Act No. 44 of June 21, 1988 and Act No. 32 of July 7, 1997, respectively, of the Commonwealth. The Puerto Rico Water Pollution Control Revolving Fund is administered, pursuant to Act No. 44 and Act No. 9 of June 21, 1988 and June 18, 1970, respectively, as amended, by Puerto Rico Environmental Quality Board (EQB). The Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund is administered, pursuant to Act No. 5 of July 21, 1977, as amended, by Puerto Rico Department of Health (DOH).

Pursuant to these laws, the EQB and the DOH, on behalf of the Commonwealth, are authorized to enter into operating agreements and capitalization grant agreements with the U.S. Environmental Protection agency (EPA). Puerto Rico Infrastructure Financing Authority (PRIFA), a component unit of the Commonwealth, PRASA, and the GDB entered into a memorandum of understanding under which each party has agreed to assume specific responsibilities in connection with the operations of the Revolving Funds.

PRASA has entered into revolving loan agreements to finance certain capital improvements. As of June 30, 2013, PRASA had outstanding approximately $469.7 million under these loan agreements.

The loan agreements are evidenced by promissory notes, which bear interest at a 2% annual rate payable semiannually. Construction loans are required to be paid in full within 20 years of the project completion date. PRASA has pledged its net revenues on a basis subordinate in all respect to the PRASA's bonds outstanding. If PRASA's pledged revenues are not sufficient for the payment of principal and interest, the payments are guaranteed by the Commonwealth under Act No. 45 of July 28, 1994, as amended, which obligates the Commonwealth to pay principal and interest on the notes.

On March 18, 2008, PRASA issued approximately $284.8 million of Revenue Refunding Bonds, Series A and B (the 2008 Revenue Refunding Bonds), (guaranteed by the Commonwealth) to refund PRASA's outstanding Revenue Refunding Bonds, Series 1995 (guaranteed by the Commonwealth) in the amount of approximately $262.8 million. The 2008 Revenue Refunding Bonds bear interest at rates from 5.80% to 6.10% per annum with maturity dates ranging from July 1, 2021 to July 1, 2034. The outstanding balance of the 2008 Revenue Refunding Bonds at June 30, 2013 amounted $284.8 million.

At various times during fiscal years ended 2005 and 2006, the Port of the Americas Authority, a component unit of the Commonwealth, entered into bond purchase agreements with the GDB, whereby the GDB agreed to disburse to the Port of the Americas Authority from time to time certain bond principal advances up to a maximum aggregate principal amount of $70 million (Port of the Americas Authority 2005 Series A Bond), $40 million (Port of the Americas Authority 2005 Series B Bond), and $140 million (Port of the Americas Authority 2005 Series C Bond). The proceeds of the bonds were used to finance the cost of development and construction of the Port of the Americas. The aggregate unpaid principal balance of all outstanding bond principal advances shall be payable in full on January 1, 2015 and January 15, 2015. The principal amount may be paid with any of the following: (i) a long-term bond issuance once the projects are completed; (ii) other revenue of the Port of the Americas Authority; (iii) or legislative appropriations as established in Act No. 409 of September 22, 2004 (Act No. 409). Principal and interests payments are guaranteed by the Commonwealth by Act No. 409. As of June 30, 2013, the principal outstanding under those bond purchase agreements amounted to approximately $220.4 million.

(b) ***Debt Supported by Appropriations and Sales and Use Taxes***

At June 30, 2013, the outstanding principal balances of debt payable by Commonwealth appropriations and sales and use taxes (PFC bonds and notes payable, as described in note 12(d), and notes payable to the GDB, as described in note 9) which are included in the individual financial

statements of the following discretely presented component units, are as follows (expressed in thousands):

	PFC Bonds and notes	Notes payable to GDB and others	Total
Puerto Rico Aqueduct and Sewer Authority	$ 411,229	—	411,229
Puerto Rico Health Insurance Administration		171,080	171,080
Puerto Rico Convention Center District Authority	—	146,773	146,773
University of Puerto Rico	—	71,927	71,927
Solid Waste Authority	7,829	74,178	82,007
Agricultural Services Development Administration	—	59,946	59,946
Land Authority of Puerto Rico	55,748	—	55,748
Puerto Rico Tourism Company	43,562	—	43,562
Puerto Rico Industrial Development Company	—	41,653	41,653
Puerto Rico Infrastructure Financing Authority	3,607	—	3,607
Company for the Integral Development of the “Península de Cantera”	—	30,715	30,715
University of Puerto Rico Comprehensive Cancer Center	—	20,050	20,050
Government Development Bank	3,501	13,340	16,841
National Parks Company of Puerto Rico	—	5,841	5,841
Institute of Puerto Rican Culture	—	3,276	3,276
Puerto Rico Electric Power Authority	—	743	743
Total	$ 525,476	639,522	1,164,998

Notes payable to the GDB are reported in the statement of net position as “Due from (to) component units”.

(c) *Other Guarantees*

Mortgage Loan Insurance – The Puerto Rico Housing Finance Authority (the Authority), a component unit of the GDB, provides mortgage credit insurance to low and moderate income families through its mortgage loan insurance program. The Commonwealth guarantees up to $75 million of the principal insured by the mortgage loan insurance program. As of June 30, 2013, the mortgage loan insurance program covered loans aggregating to approximately $508 million. Currently, the Commonwealth has not been called to make any direct payments pursuant to these guarantees.

(14) Conduit Debt Obligations and No Commitment Debt

From time to time, certain of the Commonwealth's component units issue revenue bonds to provide financial assistance to private sector entities for the acquisition and construction of transportation, environmental, industrial, tourism, educational, and commercial facilities, deemed to be in the public interest and that are expected to provide benefits to Puerto Rico. These bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities is retained by the private sector entity served by the bond issuance. Neither the Commonwealth nor any political subdivision or component unit thereof is obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the basic financial statements of the issuing entities. As of June 30, 2013, conduit debt obligations consisted of the following bonds issued by component units (expressed in thousands):

Issuing entity		Issued since inception to date	Amount outstanding
Discretely presented component units:			
Puerto Rico Ports Authority	$	155,410	155,410
Puerto Rico Highways and Transportation Authority		270,000	157,000
Government Development Bank for Puerto Rico		1,147,475	788,405
Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority		6,353,000	1,036,000
Total	$	7,925,885	2,136,815

(a) *Puerto Rico Ports Authority (PRPA)*

PRPA has issued $39,810,000 in Special Facility Revenue Bonds under the provisions of a trust agreement dated June 1, 1993, and $115,600,000 in Special Facility Revenue Bonds, under the provisions of a trust agreement dated May 1, 1996, between the PRPA and a private bank. The proceeds from the sale of the bonds were used to finance the construction, acquisition of equipment, and improvement of certain facilities at the Luis Munoz Marin International Airport for the benefit of a major private airline. The property is owned by the PRPA and leased to the private company. These bonds are limited obligations of the PRPA, and are payable solely from and secured by a pledge of certain payments made under the Special Facilities Agreement with the private company and certain other moneys. Neither the credit of the Commonwealth nor that of any of its political subdivisions is pledged for the repayment of these bonds. In addition, the bonds are unconditionally guaranteed by the private company's parent company. Pursuant to the agreements between the PRPA and the private company, the private company has agreed to pay amounts sufficient to cover the principal of and premium, if any, and interest on the bonds. The bonds are not collateralized by any property, but are payable solely from certain pledged payments by the private company under the agreement or by the private company's parent company under its unconditional guarantee. The outstanding balance of these bonds amounted to $155.4 million at June 30, 2013.

(b) ***Puerto Rico Highways and Transportation Authority (PRHTA)***

In March 1992, the PRHTA issued Special Facility Revenue Bonds, 1992 Series A, B and C for approximately $117 million for the construction of a toll bridge. The proceeds from the sale of these bonds were transferred by the PRHTA to a private entity, Autopistas de Puerto Rico & Compañía, S.E. (Autopistas), pursuant to a signed concession agreement for the design, construction, operation and maintenance of the bridge. On October 30, 2003, the PRHTA issued Special Facility Revenue Refunding Bonds, 2004 Series A, amounting to approximately $153 million for the purpose of refunding PRHTA's Special Facility Revenue Bonds, 1992 Series A, B, and C, which were issued to fund the construction of the bridge, and to pay the cost of issuance of the bonds. The proceeds from the sale of the bonds were transferred by the PRHTA to Autopistas pursuant to a new loan agreement by and between Autopistas and the PRHTA. The bonds shall be paid from the proceeds received by Autopistas from the operation of the bridge.

Under certain circumstances, the concession agreement may be terminated and the PRHTA is then obligated to assume Autopista's entire obligation to pay principal of, and interest on, the bonds outstanding, which pursuant to the signed agreement, will be paid from the net revenues of the use and operation of the bridge. The PRHTA does not currently expect the concession agreement to terminate. The outstanding bonds (including accrued interest) at June 30, 2013 amounted to approximately $157 million.

(c) ***Government Development Bank for Puerto Rico (GDB)***

In December 2003, the GDB, through its Housing Finance Authority, issued $663 million in Capital Fund Program Bonds Series 2003 to lend the proceeds thereof to the Public Housing Administration in its financing of improvements to various public low and moderate income housing projects. The Capital Fund Program Bonds Series 2003 are limited obligations of the Housing Finance Authority, which will be paid solely from an annual allocation of public housing capital funds when received from the U.S. Department of Housing and Urban Development and other funds available under the bond indenture. Accordingly, these bonds are considered no commitment debt and are excluded, along with the related assets held in trust, from the accompanying basic financial statements. The outstanding balance of these bonds amounted to $468.5 million at June 30, 2013.

On August 1, 2008, the Housing Finance Authority issued the Capital Fund Modernization Program Subordinate Bonds amounting to $384.5 million and the Housing Revenue Bonds amounting to $100 million. The proceeds from the issuance were mainly used to finance a loan to a limited liability company and pay the costs of issuance. The $384.5 million bonds are limited obligations of the Housing Finance Authority, payable primarily by a pledge and assignment of federal housing assistance payments made available by the U.S. Department of Housing and Urban Development, with an outstanding balance of $319.9 million at June 30, 2013. The $100 million bonds were also limited obligations of the Housing Finance Authority, payable from amounts deposited in escrow accounts with a trustee and the proceeds of a loan to be made by the Housing Finance Authority to the limited liability company using moneys received as a grant from the Department of Housing of Puerto Rico. Payment of principal of the Housing Revenue Bonds was also secured by an irrevocable standby letter of credit issued by the GDB. The Housing Revenue Bonds were paid-off on September 30, 2011.

(d) ***Puerto Rico Industrial, Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority (AFICA)***

AFICA's revenue bonds are special and limited obligations of AFICA and, except to the extent payable from bond proceeds and investments thereof, will be payable solely from and secured by a pledge and assignment of the amounts payable under the loan agreements between AFICA and the borrowers. Furthermore, payment of principal and interest on the revenue bonds is unconditionally guaranteed by the borrowers, their parent companies, or letters of credit generally issued by major U.S. banks or U.S. branches of international banks.

The revenue bonds are considered conduit debt and do not constitute a debt or a pledge of the good faith and credit of AFICA or the Commonwealth or any political subdivision thereof.

In connection with the issuance of revenue bonds, AFICA enters into trust agreements, whereby AFICA assigns and pledges to the trustees, for the benefit of the holders of the revenue bonds, (1) all amounts receivable by AFICA in repayment of the amounts due under the loan agreements; (2) any rights, title, and interest of AFICA in the proceeds derived from the issuance of the revenue bonds and of any securities in which moneys in any fund or account created by the trust agreements or loan agreements are invested and the proceeds derived therefrom; and (3) AFICA's rights, title, and interest in and to the loan agreements, subject to AFICA's retention of certain rights, including the right to collect moneys payable to AFICA, which are not received with respect to repayment of the loans.

Since inception and up to June 30, 2013, AFICA has issued revenue bonds aggregating to \$6,353 million, \$1,036 million of which was outstanding as of June 30, 2013. Of the revenue bonds outstanding at June 30, 2013, \$439 million represent industrial and commercial revenue bonds; \$100 million, tourism related revenue bonds; \$170 million, hospital revenue bonds; and \$327 million, educational revenue bonds. Pursuant to the loan agreements covering the issuance of these bonds, corporations and partnerships operating in Puerto Rico borrowed the proceeds from the bond issuances by AFICA.

(15) Risk Management

The risk management policies of the primary government of the Commonwealth are addressed on note 1(z).

The following describes the risk management programs separately administered by certain discretely presented component units, including all the major component units and certain non-major component units carrying self-funded risk reserves:

(a) ***GDB***

To minimize the risk of loss, the GDB purchases insurance coverage for public liability, hazard, automobile, crime and bonding, as well as workmen's insurance for employees. The selection of the insurer has to be approved by the Public Insurance Office of the Department of the Treasury. Insurance coverage is updated annually to account for changes in operating risk. For the last three years, insurance settlements have not exceeded the amount of coverage. Other risk management policies of the GDB involve its mortgage and loans servicing and insurance activities. Certain loan

portfolios of the Housing Finance Authority, a blended component unit of the GDB, are administered by private servicers who are required to maintain an errors and omissions insurance policy. The Housing Finance Authority has a program to manage the risk of loss on its mortgage loan lending and insurance activities.

(b) ***UPR***

UPR is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Through January 1993, the UPR was insured under claims made insurance policies with respect to medical malpractice risks for $250,000 per occurrence up to an annual aggregate of $500,000. Subsequent to such date, the UPR was unable to obtain insurance at a cost it considered to be economically justifiable; consequently, the UPR is now self insured for such risks. Under Act No. 98 of August 24, 1994, the responsibility of the UPR is limited to a maximum amount of $75,000 per person, or $150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Self insured risk liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The process used in computing claims liabilities does not necessarily result in an exact amount because actual claims liabilities depend upon such complex factors as inflation, changes in legal doctrines, and damage awards. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Changes in the claims liability amount for medical malpractice in fiscal years 2013 and 2012 were as follows (expressed in thousands):

		2013	2012
Claims payable – July 1	$	11,956	12,254
Incurred claims and changes in estimates		(1,084)	894
Payments for claims and adjustments expenses		(1,300)	(1,192)
Claims payable – June 30	$	9,572	11,956

In addition, the UPR is a defendant in several lawsuits other than medical malpractice arising out of the normal course of business. Management has recorded an accrual of $8.8 million as of June 30, 2013 to cover claims and lawsuits that may be assessed against the UPR. The UPR continues to carry commercial insurance for these risks of loss.

These claims payable are presented as a component of accounts payable and accrued liabilities in the accompanying statement of net position. The UPR continues to carry commercial insurance for all other risks of loss.

(c) ***PREPA***

PREPA purchases commercial insurance covering casualty, theft, tort claims, natural disaster and other claims covering all risk property (excluding transmission and distribution lines), boiler and machinery, and public liability. In addition, PREPA has a self-insured fund to pay the cost of repairing, replacing on reconstructing any property damaged or destroyed from, or extraordinary

expenses incurred as a result of a cause, which is not covered by insurance required under the 1974 agreement.

PREPA has a cost plus health insurance program covering substantially all employees. PREPA contracted an administrator for the processing, approval, and payment of claims plus an administrative fee. The accrual for employees' health plan includes the liability for claims processed and an estimate for claims incurred but not reported.

Changes in the balances of the health insurance program and other self-insurance risks during fiscal years 2013 and 2012 were as follows (expressed in thousands):

		2013	2012
Claims payable – July 1	$	7,188	7,167
Incurred claims		100,889	87,434
Claim payments		(102,807)	(87,413)
Claims payable – June 30	$	5,270	7,188

These claims payable are presented as a component of accounts payable and accrued liabilities in the accompanying statement of net position.

(d) ***PRASA***

PRASA has acquired commercial insurance to mitigate its exposure to certain losses involving real and personal property (including windstorm, flood and earthquake damages) and comprehensive general and automobile claims. PRASA also has an Owner Controlled Insurance Program (OCIP) under which commercial general liability, excess general liability, builder's risk, and contractors pollution liability coverage are procured or provided on a project "wrap up" basis for contractors and subcontractors of any tier, who have been properly enrolled, while performing operations at the applicable project site. Each commercial insurance policy maintained by PRASA contains specific policy limits and deductibles. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(e) ***PRHTA***

PRHTA carries commercial insurance to cover casualty, theft, claims and other losses. The PRHTA has not settled any claims in excess of its insurance coverage for any of the past three years.

(f) ***PRHIA***

PRHIA is responsible for implementing, administering and negotiating a health insurance system, through contracts with insurance underwriters, to provide quality medical and hospital care to the Commonwealth residents regardless of their financial condition and capacity to pay. PRHIA pays a monthly premium to such insurance underwriters based on a contracted premium and the number of members subscribed in the health plan. Funds to pay for such premiums are requested from the Commonwealth, net of funds available for such purposes from all other sources.

Under the provisions of Act No. 105 of July 19, 2002, that amends Act No. 72 of 1993, PRHIA was authorized to negotiate directly with health providers under a pilot program. PRHIA has, since then, entered into different direct contracts to cover the insured population of different regions and municipalities. Since November 1, 2006 through September 1, 2010, PRHIA directly contracted providers that served approximately 190,000 lives from the metro-north region. At June 30, 2011, PRHIA has direct contracting projects with the municipalities of Vieques and Guaynabo, and effective October 1, 2011, the projects were expanded to cover the west, the metro north, the north, San Juan, the northeast and the virtual regions under a new arrangement with a new insurance underwriter as third party administrator. In addition, PRHIA implemented certain cost containment strategies to control costs, such as establishing a co-payment that applies for the unjustified use of emergency rooms, detection and control of prescription drug overuse, implementation of disease management program for respiratory conditions, modification of provider fees and better coordination of benefits for the population having other medical insurance.

PRHIA establishes a liability to cover for the estimated amount to be paid to providers based on experience and accumulated statistical data under one of the direct contracting pilot projects. The estimates of medical claims incurred but not reported and other medical expense payments is developed using actuarial methods and assumptions based upon payment patterns, inflation of medical costs, historical developments and other relevant factors. PRHIA agrees with health care organizations certain medical care services provided to the beneficiaries. The following table provides a reconciliation of the beginning and ending liability for incurred but unpaid medical and benefit adjustment expenses for the two most recent fiscal years (expressed in thousands):

		2013	2012
Liability for incurred but unpaid benefits and benefit adjustment expenses at July 1	$	213,173	35,454
Total incurred benefits		1,262,982	775,761
Total benefit payments		(1,326,150)	(598,042)
Liability for incurred but unpaid benefits and benefit adjustment expenses at June 30	$	150,005	213,173

The liability for incurred but unpaid benefits and benefit adjustment expenses is reported as liability for automobile accident insurance, workmen compensation and medical claims in the accompanying statement of net position.

(g) ***SIFC***

SIFC provides workers' compensation insurance to public and private employees. This insurance covers workers against injuries, disability, or death caused by work or employment related accidents, or by illness suffered as a consequence of their employment. SIFC establishes liabilities for incurred but unpaid benefits and benefit adjustment expenses based on the ultimate cost of settling the benefits. The liability includes estimates for cases reported that have not been adjudged and cases incurred but not reported. The following table provides a reconciliation of the beginning and ending liability for incurred but unpaid benefits and benefit adjustment expenses for the two most recent fiscal years (expressed in thousands):

		2013	2012
Liability for incurred but unpaid benefits and benefit adjustment expenses at July 1	$	820,012	784,018
Total incurred benefits		481,743	526,610
Total benefit payments		(480,821)	(490,616)
Liability for incurred but unpaid benefits and benefit adjustment expenses at June 30	$	820,934	820,012

The liability for incurred but unpaid benefits and benefit adjustment expenses is reported as liability for automobile accident insurance, workmen compensation and medical claims in the accompanying statement of net position.

The liability for incurred but unpaid benefits and benefit adjustment expenses is based on historical claims experience data, assumptions and projections as to future events, including claims frequency, severity, persistency, and inflationary trends determined by an independent actuarial study. This liability has been discounted at 3.78% in 2013. SIFC's management believes that discounting such liability results in a better matching of costs and revenues since compensation benefits have a long payment cycle. The assumptions used in estimating and establishing the liability are reviewed annually based on current circumstances and trends.

SIFC's management believes that the liability for incurred but unpaid benefits and benefit adjustment expenses, actuarially determined at June 30, 2013, is a reasonable estimate of the ultimate net cost of settling benefits and benefit expenses incurred. Because actual benefit costs depend upon such factors as duration of worker disability, medical cost trends, occupational disease, inflation, and other social and economic factors, the process used in computing the ultimate cost of settling benefits and expenses for administering benefits is necessarily based on estimates. The amount ultimately paid may be above or below such estimates. Adjustments resulting from changes in estimates of these liabilities are charged or credited to operations in the period in which they occur.

(h) ***AACA***

AACA operates a system of compulsory insurance for vehicles licensed to be used on public roads and highways in Puerto Rico. This insurance covers bodily injuries and compensation for beneficiaries (and their dependents) caused by automobile accidents. The annual premium is $35 per motor vehicle.

The following table provides a reconciliation of the beginning and ending liability for the future benefits for the two most recent fiscal years, presented based on an undiscounted method (expressed in thousands):

		2013	2012 (As Restated)
Liability for incurred but unpaid benefits and benefit adjustment expenses at beginning of year	$	97,111	166,596
Total incurred benefits		41,165	56,526
Total benefit payments		(33,364)	(65,982)
Prior period adjustment		—	(60,029)
Liability for incurred but unpaid benefits and benefit adjustment expenses at end of year	$	104,912	97,111

The liability for future benefits is reported as liability for automobile accident insurance, workmen compensation and medical claims in the accompanying statement of net position. The liability covers the estimated cost of all future benefits related to claims incurred but not reported during the year. Future benefits include death and funeral, disability and accident and health benefits. The AACA has recorded this liability, including administrative expenses for claim processing, based on the results of an actuarial report prepared by an independent actuary.

Changes in the ultimate liabilities for benefit payments may be required as information develops, which varies from experience, provides additional data, or, in some cases, augments data, which previously were not considered sufficient for use in determining the claim liabilities.

(i) ***PCSDIPRC***

PCSDIPRC has the responsibility of providing to all the cooperatives and the Federation of Cooperatives of Puerto Rico insurance coverage over the stocks and deposits, and for monitoring the financial condition of the insured cooperatives, and the uninsured cooperatives when requested by the Inspector of Cooperatives. PCSDIPRC contracted independent actuaries for the preparation of actuarial estimates of the reserves for estimated losses on stocks and deposits.

The following table provides the activity during fiscal years 2013 and 2012 in the estimated reserves (expressed in thousands):

		2013	2012
Liability for estimated losses on insured stocks and deposits at beginning of year	$	26,975	26,000
Provision for losses		825	4,472
Payment of claims		(2)	(3,580)
Recoveries		83	83
Liability for estimated losses on insured stocks and deposits at end of year	$	27,881	26,975

These estimated reserves are presented as a component of accounts payable and accrued liabilities in the accompanying statement of net position (deficit).

(16) Commitments and Contingencies

Primary Government – The Commonwealth is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Act No. 104 of June 25, 1955, as amended, persons are authorized to sue the Commonwealth only for causes of actions set forth in said Act to a maximum amount of $75,000 or $150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Under certain circumstances, as provided in Act No. 9 of November 26, 1975, as amended, the Commonwealth may provide its officers and employees with legal representation, as well as assume the payment of any judgment that may be entered against them. There is no limitation on the payment of such judgments.

With respect to pending and threatened litigation involving the Commonwealth's governmental activities, excluding the litigation mentioned in the ensuing paragraphs, the Commonwealth reported approximately $454 million as an amount to cover for awarded and anticipated unfavorable judgments at June 30, 2013. This amount was included as other long-term liabilities in the accompanying statement of net position, and represents the amount estimated as probable liability or a liability with a fixed or expected due date that will require future available financial resources for this payment. The amounts claimed exceed $8 billion; however, the ultimate liability cannot be presently determined. It is the opinion of management that the claims are excessive and exaggerated. Management believes that the ultimate liability in excess of amounts provided, if any, would not be significant.

The Commonwealth is a defendant in two parallel lawsuits, one filed in the state court and the other at the federal court. The plaintiffs are various primary healthcare centers seeking to recover from the Commonwealth approximately $500 million of Medicaid funds retained by the Department of Health of the Commonwealth since 1997. In February 2005, United States Court of Appeals for the First Circuit determined that the Commonwealth must return the funds withheld because of noncompliance with a federal law. As of June 30, 2013, the Commonwealth accrued $440 million for this legal contingency.

The Commonwealth is a defendant in a class action presented by parents of special education students in the areas of education and healthcare. In October 2006, the State Court of Appeals decided in favor of the parents' request to include damage claims pursuant to the same class action case although not as a remedy in the class action per se. The court now may award damages to the members of the class action and to do so it may look at the claims by dividing them into groups or consider each case individually. This will require that the parents prove the damages suffered on an individual basis. The Commonwealth plans to defend vigorously each individual case. As of June 30, 2013, the Commonwealth accrued $650 million for this legal contingency.

Under the lawsuit *Vaquería Tres Monjitas, Inc. et al v. Ramírez et al.* certain plaintiffs alleged that the price rates set by the Administrator of the Office for the Regulation of the Dairy Industry (ORIL, as its Spanish acronym) did not afford local dairy processors Suiza Dairy and Vaquería Tres Monjitas the opportunity to make the reasonable profit to which they were constitutionally entitled. The parties reached a settlement agreement on October 29, 2013. Among other things, the Commonwealth, through certain of its instrumentalities, agreed to contribute the following amounts to certain regulatory accrual payments to be made pursuant to the settlement agreement: $50 million by December 31, 2014, $15 million by December 31, 2015, $15 million by December 31, 2016 and $15 million by December 31, 2017. After numerous motions, hearings and appeals, the settlement agreement took effect on November 6, 2013. The

case is now closed although the court will retain jurisdiction in order to tend to any matter of compliance or breach of compliance regarding the settlement agreement. As of June 30, 2013, the Commonwealth accrued $95 million for this legal contingency.

On December 21, 2012, the Federal Government, through the US Department of Justice, filed a lawsuit in order to demand from the Commonwealth and its Police Department, compliance with the action and remediation plan submitted on September 8, 2011 by the Civil Rights Division of the US Department of Justice pursuant an investigation which revealed a pattern of civil rights violations by the Police Department. According to this investigation and resulting report, the pattern or practice of illegal activity is the product of an ongoing failure by the Commonwealth and its Police Department to provide officers with the necessary guidance, training, and tools to engage in constitutional and effective law enforcement. The Federal Government is seeking declaratory and equitable relief to eliminate this unlawful pattern by asking the Commonwealth and its Police Department to adopt and implement policies and procedures in the areas of recruitment, hiring, promotions, policies, training, supervision, investigation, discipline, and prevent the police officers of depriving persons of rights, privileges, or immunities secured and protected by the Constitution or laws of the United States. Although the claim does not include damages, the action and remediation plan proposed would require an investment of approximately $600 million, which are expected to be incurred over a period of 10 years, starting with fiscal year 2014. During the first year, the Commonwealth is expected to allocate approximately $20 million while the Federal government would contribute $9 million. The Secretary of Justice of the Commonwealth is still negotiating the final determinations of the measures to be implemented by the Police Department in terms of final costs and timeframe. On July 17, 2013, a final definitive agreement was reached between the US Department of Justice and the Commonwealth, which was filed with the Court. Management expects the Court to dismiss the claim, but retain jurisdiction to assure compliance through a Technical Compliance Advisor to be appointed. No provision for any liability is required at this time under this remediation plan. Expenditures and related liabilities will be recognized as costs during the execution of the remediation plan are incurred beginning in fiscal year 2014.

As has been the case with each comprehensive pension reform measure enacted in the United States, certain public employees have brought lawsuit challenging the constitutionality of pension reform in Puerto Rico. Certain teachers and members of the Judiciary Branch of the Commonwealth have brought suits challenging the constitutionality of Act 160 and Act 162 of December 24, 2013, which reformed the Puerto Rico Teachers Retirement System and the Judiciary Retirement System, respectively. On January 8, 2014 a teachers' association filed a lawsuit challenging the constitutionality of Act 160 as applied to them. On January 14, 2014, the Puerto Rico Supreme Court issued a temporary restraining order staying the effect of Act 160 until the Supreme Court rules on the constitutionality issue. An evidentiary hearing was scheduled for January 27, 2014. On that same date the Supreme Court appointed a Special Master to conduct the evidentiary hearing. On January 31, 2014 the parties agreed to submit the case through the presentation of sworn statements and documents, without holding a hearing. On February 7, 2014, the Special Master issued a report with a summary of uncontested facts. On February 11, 2014, the Supreme Court issued an order granting both parties until March 3, 2014, to file briefs on the constitutionality of Act 160. On April 11, 2014 the Supreme Court declared certain sections of Act 160-2013 unconstitutional while maintaining the constitutionality of the following: (i) all changes made to the benefit structure apply to future participants that are hired after July 31, 2014; (ii) elimination of special laws benefits for participants that retire on or after August 1, 2014; and (iii) reduction of special laws benefits to current

retirees as of July 31, 2014. Currently, the Supreme Court's decision is under the Government's evaluation and analysis in order to determine the course of action to undertake.

On December 30, 2013 a judges association filed a complaint in the Commonwealth's Court of First Instance, San Juan Part, alleging that Act 162 was unconstitutional because it allegedly violated the principle on judicial independence and retroactively makes changes to the Judiciary Retirement System. On February 21, 2014, the Puerto Rico Supreme Court upheld the constitutionality of Act No. 162, but ordered the application of its provisions prospectively rather than retroactively.

In connection with the termination of an interest rate exchange agreement (swap) with a notional amount of $218 million by COFINA relating to its Sales Tax Revenue Bonds, Series 2007A, COFINA made a termination payment to the counterparty in November 2008. The counterparty has asserted that it was entitled to a termination payment in excess of that paid by COFINA in November 2008, plus interest at a default rate, amounting to approximately $64 million. The counterparty alleges that the date of the termination notice used by COFINA for purposes of calculating the termination payment was not in accordance with the agreement. In addition, the counterparty alleges that the termination payment should have been based on the value of replacement swaps entered into by COFINA, which actually have different credit terms than those contained in the terminated swap. COFINA has accrued $3.4 million in connection with this matter at June 30, 2013. The amount claimed in excess of that accrued at June 30, 2013 is approximately $60.6 million. While the counterparty may assert continued default interest since the claim date, an amount of possible loss in excess of the $3.4 million accrued, if any, cannot be reasonably estimated. COFINA intends to contest this matter vigorously. Among other things, it is the opinion of COFINA that, even assuming that the counterparty's allegations regarding improper termination are correct, the amounts claimed by the counterparty are not correct. Accordingly, management does not expect that the ultimate costs to resolve this matter will have a material adverse effect on COFINA's financial position or results of operations.

On May 7, 2013, a group of governmental employees that worked in the PBA's central offices in Minillas since 1984 up to May 2012, filed a lawsuit claiming damages suffered during the years working at such offices, caused by the existence of asbestos in the building. The employees are claiming a total of $300 million of which $100 million would be used to create a medical program to monitor health conditions on all of these employees and $200 million to be paid to them for damages. This case is in its initial stages, therefore no provision for any liability that may result upon adjudication of this lawsuit has been recorded by the Commonwealth.

PRMeSA, a component unit blended as a business type activity, is a party in certain legal actions and claims related to medical malpractice arising in the ordinary conduct of its business. Although PRMeSA appears as a defendant in the claims, many of them involve medical personnel of the member institutions, and in effect, these claims are against said institutions. As a result of the deficiency as of June 30, 2013, of funds available in the Self-Insurance Fund, any unfavorable outcome may have a significant effect on the financial condition of PRMeSA. Based on a review of current facts and circumstances, PRMeSA's management has provided for what is believed to be a reasonable estimate of the exposure to loss associated to litigation. PRMeSA has established an accrual reserve for claim losses in the amount of $3 million at June 30, 2013.

The Commonwealth is a party to other claims and litigation that its legal counsel has advised may result in possible adverse court decisions with estimated potential losses of approximately $152 million.

In May 2014, the Secretary of the Treasury of the Commonwealth (the "Secretary") declared null a closing agreement entered into in a prior year in which a taxpayer and the former Secretary agreed to recognize the value of unamortized tax asset not recovered by the taxpayer of approximately $230 million as of January 1, 2011, as a tax overpayment. The Commonwealth recorded the $230 million upon execution of the closing agreement and it remains recorded as of June 30, 2013. In June 2014, the taxpayer filed a lawsuit against the Commonwealth requesting a declaratory judgment to enforce the validity of the closing agreement. This legal case is pending. The Commonwealth plans to vigorously defend against this lawsuit.

The Commonwealth receives financial assistance from the federal government in the form of grants and entitlements. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal laws and regulations, including the expenditure of resources for eligible purposes. Substantially, all grants are subject to audit under Circular A-133 of the Office of Management and Budget of the United States of America (OMB Circular A-133), all of which are performed at the individual department or agency level. Disallowance as a result of these audits may become liabilities of the Commonwealth. At June 30, 2013, based on an evaluation of pending federal disallowances, the Commonwealth has recorded approximately $68.3 million as other long-term liabilities in the accompanying statement of net position. Expenditures that are still subject to audit could be disallowed but management believes any such future disallowances would not be material to the basic financial statements.

PRIFA is a sub-grantee of the Office of the Governor of the Commonwealth under the State Fiscal Stabilization Fund Program, which was authorized under Title XIV of Division A of the American Recovery and Reinvestment Act of 2009 (the ARRA Act). PRIFA was awarded a $20 million grant for ARRA Act implementation costs and a $55 million grant for school renovations. Under the ARRA programs, PRIFA is responsible to oversee the administration of all resources awarded to the Commonwealth under the ARRA Act. PRIFA will also act as coordinator of efforts and tasks to ascertain ARRA Act funds are properly managed. Additionally, PRIFA is responsible for contracting, managing, and providing oversight to the school renovations or improvement projects. Pursuant to the provisions of the ARRA Act, PRIFA also entered into a sub-grantee agreement with the Puerto Rico Energy Affairs Administration (EAA) to administer approximately $62 million of a grant to be received from the US Department of Energy under the Weatherization Assistance Program (WAP). WAP was established to provide assistance to the elderly, families with children, persons with disabilities and those with a high-energy burden in their household.

On November 23, 1998, a global settlement agreement (the Global Agreement) was entered into by and between certain tobacco companies and certain states, territories, and other jurisdictions of the United States of America, including the Commonwealth. The Global Agreement calls for annual payments through the year 2025, which will vary due to inflationary and volume adjustments. Estimated payments to be received under the Global Agreement through the year ending June 30, 2025 amount to approximately $1.1 billion. After 2025, the tobacco companies shall continue making contributions in perpetuity. Pursuant to Act No. 173 of July 30, 1999, which created the Children's Trust (a blended component unit), the Commonwealth assigned and transferred to the Children's Trust the contributions that the Commonwealth is entitled to receive under the Global Agreement. Payments received under the Global Agreement and

recognized as revenue during the year ended June 30, 2013, amounted to approximately \$109.4 million. All of the revenue to be received under the Global Agreement and investment earnings on certain accounts under bond indentures are pledged as collateral for the Tobacco Settlement Asset-Backed Bonds, Series 2002, 2005, and 2008. At June 30, 2013, the approximate amount of the pledge is \$1.4 billion, representing the approximate remaining principal and interest of the aforementioned bond issuances, which are committed through May 15, 2057. Accordingly, until May 15, 2057, such revenues are not available for other purposes.

At June 30, 2013, the Children's Trust had approved commitments to provide assistance to several entities through thirty-six contracts with balances amounting to approximately \$24 million.

On October 14, 2010, the Legislature of the Commonwealth approved a new article 9A to Act No. 66 of June 22, 1978, (the Article), authorizing PRMeSA, which became a blended component unit effective July 1, 2012, to incur in obligations up to \$285 million, under such terms and conditions approved by the Board of Member Institutions of PRMeSA and the GDB, as fiscal agent of the Commonwealth and its instrumentalities. These additional funds shall be deposited in a special account at the GDB and may only be used for the following purposes:

a. payment of debts to suppliers, agencies, institutions, reserve fund for the self-insurance (professional responsibility and inter-fund debt) of PRMeSA; and

b. to provide operational liquidity to ease PRMeSA's fiscal situation, as determined by the agreement with the GDB.

From savings generated as a result of the debt renegotiations with the agencies and institutions, PRMeSA will create a fund to cover operating expenses related to maintenance, overhaul and reconditioning of the physical plant. The GDB, in its role as fiscal agent, shall possess the administrative mechanisms as it deems necessary to ensure that these funds will be used solely and exclusively for the purposes set forth in the Article. The special bank account and the funds deposited therein shall not be seized, syndicated, frozen, encumbered or otherwise affected by decisions, judgments, orders or rulings issued by courts of Justice of the Commonwealth or its agencies or public corporations during any adjudicative proceeding of administrative or judicial nature, regardless of whether they were initiated by private individuals or public institutions. PRMeSA was required to develop and implement within one hundred eighty (180) days from the approval of the Article, an aggressive collection plan for the recovery of its accounts receivable. The Directors shall report periodically to the GDB on the implementation of that plan, and report annually to the Board of Member Institutions and the GDB the collection proceeds arising from the execution of the plan. The GDB was authorized as fiscal agent to undertake any necessary measures in order to, within a reasonable period of time, help PRMeSA to become and operate as an independent fiscal instrumentality. However, once the collection plan is working as expected and providing PRMeSA the funds resources required, and becomes a financially independent institution as determined by the GDB, PRMeSA will be required to assume the remaining established obligations.

The healthcare industry, under which PRMeSA operates, is subject to numerous laws and regulations which include, among other things, matters such as government healthcare participation requirements, various licenses and accreditations, reimbursements for patient services and Medicare and Medicaid fraud and abuse. Government action has increased with respect to investigations and/or allegations concerning

possible violations of fraud and abuse and false claims statutes and/or regulations by healthcare providers. Providers that are found to have violated these laws and regulations may be subjected to fines or penalties. While management of PRMeSA believes its policies, procedures and practices comply with governmental regulations, no assurance can be given that the Administration will not be subject to governmental inquires or actions.

The Health Insurance Portability and Accountability Act (HIPAA) was enacted in August 1996 to assure health insurance portability, reduce healthcare fraud and abuse, guarantee security and privacy of health information and enforce standards for health information. Organizations are required to be in compliance with HIPAA provisions. Organizations are subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations. PRMeSA's management believes that they are in compliance.

The Health Information Technology for Economic and Clinical Health Act set meaningful use of interoperable Electronic Health Record (EHR) adoption in the health system as a critical national goal and incentivized the EHR adoption. Its goal is not adoption alone but meaningful use of EHRs, that is, their use by providers to achieve significant improvements in care. Meaningful use compliance is required before the Federal Fiscal Year 2016 or otherwise the hospital will incur penalties for non-compliance that may reduce future Medicare payments and potentially Medicare Advantage program payments. The Centers for Medicare and Medicaid Services (CMS) manages and has implemented an incentive program for those hospitals that implement EHR and that also, comply with certain specific requirements. CMS' EHR Incentive Programs provide incentive payments to eligible hospitals as they adopt, implement, upgrade or demonstrate meaningful use, as defined by CMS, of certified EHR technology. As of June 30, 2013, PRMeSA is under the implementation of its EHR system.

The Special Communities Perpetual Trust (the Trust) has financial assistance agreements with several municipalities of the Commonwealth to provide funding for the construction, improvement and rehabilitation of certain projects of the Special Communities. At June 30, 2013, the Trust's commitments with the municipalities for housing assistance projects amounted to approximately $108.5 million, from which a total of approximately $98.8 million had been disbursed.

Construction commitments at June 30, 2013, entered into by the PBA, amounted to approximately $39.2 million. In addition, PBA's construction commitments to honor the cost of the uncompleted public schools under the 21st Century Program amounted to approximately $164.4 million at June 30, 2013. PRIFA has active construction projects at June 30, 2013, representing construction commitments amounting to $38.2 million.

The Commonwealth is also committed under numerous non-cancelable long term operating lease agreements which expire through 2033, covering land, office facilities, and equipment. Rental expenditure within the governmental funds for the year ended June 30, 2013 under such operating leases was approximately $114 million.

The future minimum lease payments for these leases are as follows (expressed in thousands):

Year ending June 30:		
2014	$	84,734
2015		66,627
2016		44,105
2017		29,684
2018		15,871
2019 – 2023		30,032
2024 – 2028		16,093
2029 – 2033		1,272
Total future minimum lease payments	$	288,418

Discretely Presented Component Units – in the normal course of their operations, various component units are subject to guarantees, actions brought by third parties seeking damages or entering into commitments. Such actions are disclosed in the separately issued reports of the major component units, included below. With respect to commitments related to guarantees, certain nonmajor component units engaged in the financial services industry were also included for informative purposes. These commitments and guarantees are summarized below:

(a) ***GDB***

At June 30, 2013, the GDB has financial guarantees for the private sector of approximately $597 million. In addition, at June 30, 2013, standby letters of credit to the public sector were approximately $1.3 billion. Commitments to extend credit to the public sector were approximately $1.3 billion and to the private were approximately $95 million.

On July 24, 2013, Aerostar Airport Holdings, LLC (Aerostar) and the PRPA entered into a lease agreement of Luis Muñoz Marín International Airport (LMMIA), for a term of forty years. In connection with the lease of LMMIA, the GDB executed a payment guarantee in favor of Aerostar for any Termination Damages due and payable in cash by the PRPA under the lease agreement. In accordance with GDB's guarantee, Aerostar has the right to terminate the lease agreement mainly under three different non-compliance scenarios on the part of the PRPA. The amount of Termination Damages mainly consists, among other components, of the LMMIA Facility Leasehold Value and Leasehold Compensation as defined in the agreement.

On September 22, 2011, Autopistas Metropolitanas de Puerto Rico, LLC (Metropistas) and PRHTA entered into a concession agreement (the Concession Agreement) for the administration of the toll roads PR-22 and PR-5, for which the PRHTA received in exchange a lump-sum payment of $1.1 billion and a commitment to make immediate improvements to the toll roads amounting to $56 million and to comply with world-class operating standards which may require investing more than $600 million over the life of the concession. In connection with the closing of the Concession Agreement, the GDB executed a payment guarantee in favor of Metropistas pursuant to which the GDB acts as guarantor of any Termination Damages, as defined in the Concession Agreement, due and payable in cash by the PRHTA under the Concession Agreement. The amount of Termination

Damages consists, among other components, of the fair market value of Metropistas' interest in the toll roads. At the same time, in connection with the payment guarantee, the GDB and the PRHTA also entered into a Reimbursement Agreement whereby the PRHTA agreed to reimburse the GDB for any amounts paid under the guarantee.

On August 18, 2002, the Legislature approved Act No. 198, which creates the Cooperative Development Investment Fund. The purpose of this fund is to promote the development of cooperative entities. This fund will be capitalized through contributions to be provided by the GDB up to $25 million to be matched by cooperative entities. As of June 30, 2013, the GDB has contributed $19.3 million to the Cooperative Development Investment Fund, $1.4 million of which were contributed during the year ended June 30, 2013.

GDB's Development Fund has entered into an agreement with the Economic Development Bank for Puerto Rico (EDB) whereby the Development Fund would guarantee a portion of loans granted by the EDB under a government program named "The Key for Your Business" (the Program). Under the agreement, the Development Fund would assign $15 million of its capital for the Program. The Development Fund guarantees one-third of the outstanding principal balance of each loan plus accrued interest and certain other charges. The Development Fund charges one percent of the loan amount as guarantee fee and no loan can exceed $50,000. In addition, the GDB, the Development Fund, and certain participating banks enter into guarantee, commitment and funding agreements in which the Development Fund guarantees eligible loans made by such banks to eligible businesses up to a maximum of 30% of the principal amount of the loans. The guarantee Program started on April 3, 2012 and ended on April 3, 2013. As of June 30, 2013 guarantees amounted to approximately $56 million. At June 30, 2013, the outstanding balance of loans guaranteed by the Development fund amounted to approximately $6.6 million, and the allowance for losses on guarantees amounted to approximately $664 thousand.

The Housing Finance Authority, a blended component unit of the GDB, acts as servicer for a number of mortgage loans owned by other investors. The servicing is generally subcontracted to a third party. As of June 30, 2013, the principal balance of the mortgage loans serviced for others is approximately as follows (expressed in thousands):

Puerto Rico Community Development Fund I	$	42,750
R-G Mortgage, Inc. or its successor		1,316
Office for the Administration of the Assets of the Urban Renovation and Housing Corporation or its successor without guaranteed mortgage loan payments		28
	$	44,094

GDB and certain of its component units are defendants in several lawsuits arising out of the normal course of business. Management, based on advice of legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings will not have a material adverse effect on the financial position and results of operations of the GDB or its component units.

(b) ***PRHTA***

PRHTA is a defendant or co-defendant in various lawsuits for alleged damages in cases principally related to construction projects. These are generally either fully or partially covered by insurance. The contactors are required, under the terms of the construction agreements to carry adequate public liability insurance and to hold harmless the PRHTA from lawsuits brought on account of damages relating to the construction of the projects.

On June 13, 2011 and February 17, 2012, the PRHTA deposited approximately $21.8 million and $16.9 million, respectively, at the Federal Court of Puerto Rico as part of the appeal process at the U.S. Court of Appeals for the First Circuit of Boston for two legal cases related to construction projects. As of June 30, 2013, the PRHTA, based on legal advice, has recorded a liability of approximately $139.2 million for probable losses on those claims not fully covered by insurance. In the opinion of legal counsel, any liability in excess of the recorded liability that may arise for such claims will not be significant to the PRHTA's financial position or results of operations.

PRHTA entered into a System and Test Track Turnkey Contract (STTT Contract) with Siemens Transportation Partnership Puerto Rico, S.E. (Siemens) and other contractors for the purpose of operating and maintaining the Urban Train. During 2005, the STTT Contract became effective upon execution of the contract for an initial term of five years with an option by the PRHTA to extend the term for an additional five years. The compensation is based on a schedule included in the master agreement which approximates $4.0 million on a monthly basis. The total annual operation and maintenance cost, including cost of issuance and electricity, for fiscal year 2013 was approximately $75.1 million.

PRHTA faces a number of business challenges that have been exacerbated by the Commonwealth's economic recession and the fact that the PRHTA has not increased tolls to its customers at sufficient levels to offset the effects of its rising costs. PRHTA's principal challenges, some of which are interrelated, are: (i) reduction of operating costs; (2) increase in the use of federal grants; and (iii) improving its liquidity. The PRHTA is committed to take all necessary measures to ensure it achieves a healthy financial condition. Refer to note 15(a) for additional measures and actions being taken by the GDB as well on addressing PRHTA's challenges.

(c) ***PRASA***

PRASA is a defendant on various lawsuits presented by customers alleging that PRASA has over billed them due to the methodology used to estimate consumption. There are two cases in which plaintiffs requested a certification of the suit as a class action and seek recovery damages in the amount of approximately $386 million, plus legal costs of around $100 million (25%) and interests and an injunction enjoining PRASA from continuing to bill using the current methodology. PRASA's potential exposure from these lawsuits is unlikely or cannot be presently determined and, as such, no liability is being reported on the accompanying basic financial statements.

PRASA is the defendant or codefendant in various other lawsuits. The ultimate outcome of the lawsuits cannot presently be determined. However, PRASA's management, based on the advice of legal counsels, is of the opinion that these lawsuits will not have a material impact on the basic financial statements.

(d) ***PREPA***

PREPA is a defendant or codefendant in several lawsuits incidental to its business, some involving substantial amounts. In those instances that management and legal counsel believe that the outcome of the litigation will be unfavorable to PREPA, a provision has been made to cover the estimated liability. PREPA's management, based on discussions with legal counsel, believes that the additional liability, if any, resulting from the ultimate resolution of these matters will not have a material effect on PREPA's financial position or results of operations.

On May 18, 2000, Abengoa, Puerto Rico, S.E. (Abengoa), PREPA's contractor for the repowering of San Juan steam plant units 5 and 6, unilaterally declared a termination of the contract with PREPA and filed a complaint for breach of contract. PREPA has moved for time to answer the complaint and has filed a counterclaim for the cost of the project and for all damages caused to PREPA by the alleged illegal contract termination. PREPA believes that the actions by the contractor will not materially affect the ability of PREPA to provide service nor there will be a material difference in the quality of service provided by PREPA.

In 2009, a large fire at a tank farm owned by CAPECO caused major damage to surrounding areas. PREPA stored some of its fuel at this facility. In the aftermath of the fire, numerous claims were filed against CAPECO. Some of the plaintiffs included PREPA as a defendant in these suits, alleging that PREPA failed in its duty (as the owner of fuel stored at the site) to properly monitor CAPECO's operations in the tank farm. All cases are in the initial stages and PREPA intends to vigorously defend against these claims. On August 12, 2010, CAPECO filed for bankruptcy. As a result thereof, all proceedings against CAPECO have been stayed. The proceedings against PREPA continue.

In 2011, separate lawsuits were filed against PREPA by various consumers claiming damages allegedly caused by incorrect and unlawful billing and invoicing practices. The lawsuits have been consolidated and certified as complex litigation, as requested by PREPA. The consumers are claiming damages in excess of $100 million and requested that the case be certified as a class action. PREPA filed its reply in opposition to the class certification request. Discovery proceedings have begun. In 2011 a federal class action lawsuit was filed claiming that PREPA's rate schedules, including subsidies granted to various groups, violate federal antitrust law, specifically the Robinson-Patman Act, and the religious freedom clause of the First Amendment to the United States Constitution by discriminating against certain customers who are not entitled to subsidies and requiring certain customers to associate with persons of different religious or political views by subsidizing those views through PREPA's lower electric rates to such persons. The amount claimed is unspecified. PREPA believes the claims are without merit because several elements of the Robinson-Patman Act that the plaintiffs must prove do not exist in PREPA's case, including that it does not sell electricity in interstate commerce and because PREPA's subsidies are mandated by Commonwealth legislation rather than independent PREPA actions. Discovery proceedings have begun. In 2011, a civil lawsuit was filed against PREPA and its directors in federal court in Puerto Rico, by eight private individuals and one local private corporation, claiming violations of the Racketeer Influenced and Corrupt Organizations Act (the RICO Act), including unlawful use of an enterprise to launder money generated by a pattern of racketeering activity, unlawful manipulation of an enterprise for purposes of engaging in, concealing, or benefiting from a pattern of racketeering activity, unlawful conspiracy to violate the RICO Act and conspiracy to advance a money-laundering

scheme. Neither the United States federal government nor the Commonwealth government is a party in this civil lawsuit. The amount claimed is unspecified. Plaintiffs have also asked the federal court to allow them to be the representatives of a class consisting of all consumers of the electricity sold by PREPA from 2007 to the present. On September 25, 2012, the federal court dismissed all of the above claims except those claims regarding conspiracy to advance a money laundering scheme and conspiracy for acquiring an interest in an enterprise. The federal court has not yet ruled on the issue of class certification. PREPA believes that class action certification will not be granted because the grounds advanced by plaintiffs are the same as those made in a prior year, unrelated Commonwealth court lawsuit against PREPA in which class certification was denied on facts very similar to those in this RICO Act lawsuit. Discovery proceedings have begun. PREPA believes that the undismissed RICO Act claims are without merit because the plaintiffs will be unable to prove the necessary elements of those claims, in particular those that require showing that PREPA conspired through its employees to violate the RICO Act, or that its directors or Board members obtained any interest in PREPA (other than their Board position).

In 2009, PREPA filed a lawsuit in Commonwealth court against Vitol, Inc. and certain of its affiliates and subsidiaries seeking a declaratory judgment as to the nullity of a $2 billion fuel supply agreement due to Vitol's failure to disclose certain corruption cases for which it accepted responsibility. Vitol removed this lawsuit to federal court and presented a counterclaim alleging that PREPA owed it approximately $45 million for delivered fuel and related excise taxes. Although the case is currently in the discovery stage, the court has stayed this process until such time as certain motions regarding forum selection have been resolved. On November 28, 2012, PREPA filed a second complaint against Vitol in the Commonwealth Court of First Instance seeking essentially the same remedies sought in the first action but as to four other contracts, after discovery revealed the date in which Vitol learned of the investigations in the corruption cases. Vitol also removed this action to the U.S. District Court for the District of Puerto Rico. PREPA claims approximately $3.5 billion in the aggregate. Vitol has resolved the claim for the $17 million in excise taxes and has stated that it will amend its counterclaim to dismiss that claim. Discovery in the case is closed. The parties have submitted motions for summary judgment against each other and are in the process of filing their respective oppositions thereto.

In 2007, 2008 and 2009, six cases were filed against PREPA, PRASA, and other entities alleging damages resulting from landslides. The complaints allege that PREPA caused or contributed to the landslides based on its construction of transmission lines in the area. In total, the six plaintiffs have claimed approximately $19.5 million in damages. These cases are in discovery stage and have been stayed by the court due to the bankruptcy of PRASA's insurer. Once proceedings in this case resume, PREPA will continue with its vigorous defense.

Fifty-five plaintiffs, former PREPA employees, claim that they have health problems due to PREPA's intentional failure to comply with federal and local laws regarding asbestos materials. In particular, plaintiffs claim that, during a certain time-frame, in which PREPA had the obligation to take measures regarding asbestos materials in its facilities, PREPA failed to comply with its duty to protect the plaintiffs from asbestos exposure. Plaintiffs claim approximately $321 million in damages. PREPA alleged employer's immunity but the courts held that a hearing on the merits of said defense was necessary before ruling on the matter of PREPA's alleged gross negligence. After the hearing as to the alleged negligence, held on several dates in July and August 2013, the Court

requested that the parties submit legal briefs, which the parties are in the process of filing. If PREPA prevails on the employer immunity defense, the case will be dismissed. If PREPA does not prevail on said defense, the case will proceed to trial on negligence and damages as to every particular plaintiff.

In addition to these cases, PREPA is involved in typical litigation for an electric power utility, but management estimates the amounts of such claims are not material and will not affect adversely PREPA's operations.

(e) ***UPR***

UPR participates in a number of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, or to compliance audits by grantor agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. Management believes the impact will not be material to the UPR's financial statements.

Effective April 23, 2012, the National Science Foundation (NSF), an independent U.S. government agency, suspended the federal awards for research and development in the Research and Development Center at the Mayagüez Campus and in the Resource Center for Science and Engineering ascribed to the Central Administration unit of the UPR because the UPR has not corrected the time and effort reporting deficiencies as established in the Corrective Action Plan. NSF is responsible for promoting science and engineering through research programs and education projects. NSF will not reimburse expenditures incurred on and after April 23, 2012 by the UPR in the involved units. Most of the research and training activities under grants affected by the suspension status continue with funding from the UPR. Significant interactions between NSF and the UPR has led to a robust body of Effort Reporting System (ERS) policies and procedures, the creation of a system – wide Office for Research Compliance and Integrity and an overarching committee for continuous assessment and creation of sponsored programs, policies and procedures. On November 21, 2013, NSF lifted its suspension of the Research and Development Center at the Mayagüez Campus and in the Resource Center for Science and Engineering ascribed to the Central Administration unit of the University.

(f) ***PRHIA***

PRHIA has been requested to repay the Commonwealth's Department of the Treasury approximately $103 million representing excess transfers of money from the central government during the fiscal years 2001–2003. After consultation with external legal counsel, PRHIA is of the opinion that the money does not have to be repaid and believes that the likelihood of an unfavorable outcome is remote. Therefore, no reserve for such request has been recognized in PRHIA's financial statements.

(g) ***EDB***

At June 30, 2013, the EDB has financial guarantees of approximately $3 million. In addition, at June 30, 2013, commitments to extend credit were approximately $41 million and commitments to invest in venture capital were approximately $8 million.

(h) ***PCSDIPRC***

PCSDIPRC provides insurance coverage over the stocks and deposits of all cooperatives in Puerto Rico. The deposit base of the cooperatives approximates $7.1 billion at June 30, 2013.

Environmental Commitments and Contingencies

Primary Government – The Commonwealth accounts for the pollution remediation obligations in accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and post-closure care.

Once any of five specified obligating events occurs, a government is required to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. Obligating events include the following:

- The government is compelled to take pollution remediation action because of an imminent endangerment.
- The government violates a pollution prevention–related permit or license.
- The government is named, or evidence indicates that it will be named, by a regulator as a responsible party or potentially responsible party (PRP) for remediation, or as a government responsible for sharing costs.
- The government is named, or evidence indicates that it will be named, in a lawsuit to compel participation in pollution remediation.
- The government commences or legally obligates itself to commence pollution remediation.

During 2012, the PBA identified asbestos in its central offices building in Minillas. Asbestos removal cost was estimated based on environmental engineers' consultant survey and as a result of this study, the PBA recorded a liability of $2 million at June 30, 2012. During the year ended June 30, 2013 most of the asbestos removal process was completed at a total cost very similar to the total provision recorded in 2012. The PBA has contracted environmental engineers to determine if asbestos exists at any other of the PBA's properties. At June 30, 2013 no other property has been identified, therefore no additional reserve for any future potential liability has been recorded.

Component Units – The following discretely presented component units' operations are the ones carrying and involved in specific activities that are subject to state and federal environmental regulations:

- *PREPA* – Facilities and operations of PREPA are subject to regulation under numerous federal and Commonwealth environmental laws, including the Clean Air Act, Clean Water Act, Oil

Pollution Act (OPA), Resource Conservation Recovery Act (RCRA), Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and Underground Storage Tanks, among others.

In 2002, PREPA received a "Special Notice Concerning Remedial Investigation/Feasibility Study for Soil" at the Vega Baja Solid Waste Disposal Superfund Site. The EPA has identified PREPA and six other entities as "potentially responsible parties", as defined in the CERCLA. In 2003, PREPA agreed to join the other potentially responsible parties in an Administrative Order on Consent (AOC) for a Remedial Investigation/Feasibility Study (RI/FS), with the understanding that such agreement did not constitute an acceptance or responsibility. Under the AOC, PREPA committed up to $250,000 as its contribution to partially fund the RI/FS. At this time, RI/FS has been completed. The work proceeded in accordance with the schedule established by PREPA and the other designated potentially responsible parties (PRP's). In July 2010, a proposed plan was issued identifying the Preferred Alternative to address soil contamination at the Vega Baja Solid Waste Disposal Site. EPA held a public hearing on August 3, 2010 to discuss the alternatives to address soil contamination.

The Record of Decision (ROD) was published as scheduled by EPA on September 30, 2011. Alternative No. 2, Removal with On-Site Consolidation and Cover in the Non-Residential Area, was selected. From this point on, EPA resumed negotiations with the PRP's, both private and public, towards signing a Consent Decree through which the PRP's would contribute enough funds to cover the costs of the remedial action and the maintenance of the site. PREPA has already approved a contribution of $1.0 million through Resolution 3804, April 1, 2011. Notwithstanding, through further negotiations an additional contribution of $300,000 was required by EPA. This additional contribution was approved by PREPA's Governing Board.

On December 4, 2012, the Federal Department of Justice lodged with the Court the Consent Decree Civil Action No. 3:12-cv-01988, which requires that PREPA shall pay to EPA for the past response costs of the agency the amounts of $300,000 within 30 days of the effective date; $300,000 no later than August 15, 2013 and $300,000 no later than August 15, 2014. Also, an Environmental Escrow account must be created to serve as financial assurance for the performance of the obligations under the Consent Decree. PREPA shall deposit $400,000 into the escrow account within 60 days of the effective date of the Consent Decree. The effective date of the Consent Decree has not been established yet. This Consent Decree can be terminated upon motion by any party, provided that all public Defendants have satisfied their obligations of payments to Response Cost and Stipulated Penalties.

PREPA continues to develop and implement a comprehensive program to improve environmental compliance in all applicable environmental media. This program has been and continues to be updated to conform to new regulatory requirements.

- *PRASA* – On July 1, 2003, PRASA entered into an agreement (Civil Action No. 01-1709) with EPA to attain compliance with the Clean Water Act in relation to PRASA's wastewater pump stations (WWPSs) in response to a significant number of sanitary sewer bypasses from these locations. The Clean Water Act prohibits discharges of sewage from any point in the collection and treatment system other than the authorized point at the treatment facility. PRASA completed

all improvement projects required by EPA for these WWPSs on or before the established completion dates in the agreement. This agreement also required PRASA to invest $1 million in the development and implementation of a Supplemental Environmental Project (SEP). This project consisted of the connection of three NON-PRASA communities to the PRASA's drinking water system. The connection has been completed and is awaiting completion of adjacent systems to fully integrate these systems to PRASA's service. The agreement also required the implementation of the Preventive Maintenance Program (PMP) for all of PRASA's WWPSs. This was fully completed in December of 2010, and is still in place. As part of the agreement, PRASA pays stipulated penalties for pump station bypass events on a quarterly basis. The penalty calculations are based on the pumping capacity of the pump station and the time taken to correct the deficiency causing the bypass event. The amount paid during fiscal year 2013 was approximately $300,000.

On June 22, 2006, PRASA entered into a consent decree (Civil Action No. 06-1624) with EPA that requires PRASA to implement system-wide remedial measures at all of the wastewater treatment plants operated by PRASA. The decree establishes deadlines for the compliance with the conditions set forth in the agreement and stipulates penalties for violation of any of those deadlines. PRASA was assessed a stipulated civil penalty of $1 million which was paid during fiscal year 2008. This penalty was assessed by the Court as payment for the discharge permit violations of several treatment facilities to the Clear Water Act. The agreement also required PRASA to deposit in an escrow account with the GDB an additional civil penalty of $3 million. These funds are to be used for providing sewer service to a community that has not been connected to PRASA's sanitary sewer system. PRASA is currently engaged in discussion with EPA as to the specific community that will benefit from this project. As part of the agreement, PRASA pays stipulated penalties on a yearly basis for exceedances to each of PRASA's facilities to their individual discharge permits. The penalty calculations are based on frequency of the exceedances as well as the percentage of the exceedances with its respective limit. The amount paid during fiscal year 2013 was approximately $500,000. These penalty payments are deposited into an escrow account from which a fraction of the deposited amount can be reimbursed to PRASA based on completion of specific projects and initiatives.

On May 25, 2006, PRASA entered into a plea agreement with the U.S. Department of Justice related to violations of the Clean Water Act, as amended, Title 33, USC, Sections 1131(a) and 1319(c)(2)(A). As part of the agreement (Criminal Case No. 06-CR-00202-001), PRASA paid a $9 million fine. This penalty was assessed by the Court as payment for the discharge permit violations of several treatment facilities to the Clean Water Act. PRASA was placed on probation for a period of five years. As part of the probation PRASA has to comply with several special conditions, such as: (i) upgrade the collection and wastewater treatment system in the Ponce de León Avenue area of San Juan for a cost of not less than $10 million to prevent direct discharges to the Martín Peña Channel; (ii) upgrade nine wastewater treatment plants for a cost of not less than $109 million; and (iii) comply with the consent decree signed by PREPA with the U.S. government on June 22, 2006. The plea agreement also established stipulated penalties for violation of any on the deadlines of performance standards set forth in the agreement. Currently, PRASA is in compliance with the deadlines and requirements of this consent order and no penalties have been paid.

On December 15, 2006, an agreement (Civil Case No. KPE 2006-0858 was signed between PRASA and the Department of Health of the Commonwealth related to violations of the Safe Drinking Water Act (SDWA), as amended. The agreement was preliminary approved by the supervising court on March 15, 2007 and it was amended and finally approved by that court on June 20, 2008. PRASA agreed to implement a work plan to remediate the violations, establish preventive and mitigation measures, and execute a preventive maintenance program for the purpose of meeting the requirements of the SDWA. This Act requires the compliance with parameters of water quality and treatment techniques in PRASA's water systems. As part of the agreement, PRASA paid a civil penalty of $1 million during fiscal year ended June 30, 2007. The civil penalty was stipulated by the court for alleged noncompliance issues to the SDWA attended in this decree. In this Consent Decree, PRASA shall pay stipulated penalties for failing to comply with remedial measures deadlines, fail to submit deliverables or exceedances to maximum contaminant levels. During fiscal year ended June 30, 2008 and based on the amendment and final approval of the agreement, PRASA accrued approximately $2.7 million for penalties for noncompliance as stipulated by the final agreement, which were paid during fiscal year 2009. Also, as part of the penalties for noncompliance with the remedial measures of the agreement with the Department of Health during fiscal year 2009, $1.3 million were deposited in a GDB escrow account to be used for a SEP. This SEP included three projects: (1) a chemical monitoring of 67 non-PRASA systems, (2) the installation of a disinfection system in six non-PRASA systems, and (3) the connection of schools that have their own deficient water systems to PRASA's water system. During fiscal year ended June 30, 2013, the penalties amounted to approximately $600,000. PRASA deposited $50,000 in an escrow account for parameters exceedances that will be used for compliance projects with the approval of the Department of Health.

On November 2007, PRASA entered into negotiation of a consent decree (Civil Action No. 10 1365) with EPA that requires PRASA to implement system wide remedial measures at all of the sludge treatment systems at the water treatment plants owned and operated by PRASA. The consent decree was lodged on May 3, 2010 and its entry date was August 24, 2010. This consent order supersedes previous consent orders known as PRASA II (Civil Action No. 92 1511) and PRASA III (Civil Action No. 00-2554). This consent order establishes deadlines for the compliance with the conditions set forth in the proposed agreement and stipulates penalties for violation of any of those deadlines.

PRASA was assessed a civil penalty of approximately $3.2 million of which $1 million was paid to the Treasurer of the United States of America as a civil penalty, and $2.2 million was deposited in an escrow account with the GDB for the design and construction of a SEP. This SEP consisted of the installation of an aeration system in the Toa Vaca Lake. The aeration system was finished and placed into operation on November 2012. The total amount of penalties paid under this agreement during the fiscal year 2013 was approximately $1.7 million. Stipulated penalties must be paid by PRASA for failing to comply with remedial measures deadlines, permitting limit exceedances or fail to submit deliverables or DMR's monthly reports or Discharge Monitoring Reports.

PRASA is in the process of renegotiation of all the consent decrees and commitments mentioned above. The objective of this renegotiation is to establish a prioritization system that will smooth out the economic impact of the capital improvement projects on a yearly basis.

- *SWA* – SWA initiated in years prior to the year ended June 30, 2013, the implementation and development of the Strategic Plan for Recycling and Disposal of Solid Waste in Puerto Rico at an estimated cost of approximately $112 million. The first stage consists of the construction of thirty-nine (39) projects to be financed through an interim financing agreement with the Government Development Bank for Puerto Rico. The lines-of-credit under the agreement were paid by the Department of the Treasury of the Commonwealth through joint resolutions approved by the Legislature of Puerto Rico. SWA has continued with the planning and construction of the projects.

  During May 2008, SWA approved the "Dynamic Itinerary for Infrastructure Projects of Solid Waste in Puerto Rico". This itinerary defines the strategies for safe and efficient handling of solid waste in Puerto Rico for the next twenty-five (25) years in compliance with all applicable regulations. SWA proposes this itinerary for the purpose of adopting this plan as the official instrument to guide public policy for the development of infrastructure projects for handling and final disposition of solid waste in Puerto Rico. The projects proposed in the itinerary include programs to develop facilities for the recovery of recyclable materials facilities (RMF's) for the deposit of acceptable sludge, facilities to convert solid waste to energy, transshipment facilities and lateral expansion to sanitary stuffing systems (SSS). The development of these projects takes into consideration the closing of various SSS. The construction investment is estimated at approximately $1.9 billion. SWA projects that financing for these projects will come from both the public and private sectors.

Construction Commitments – As of June 30, 2013, the following discretely presented component units are the ones maintaining various unspent construction agreements as follows (expressed in thousands):

Puerto Rico Highways and Transportation Authority	$	642,200
Puerto Rico Aqueduct and Sewer Authority		88,300
Puerto Rico Electric Power Authority		112,000
University of Puerto Rico		36,600
Puerto Rico Ports Authority		13,200
Company for the Integral Development of the Peninsula de Cantera		14,560
Port of the Americas Authority		1,434
Puerto Rico and Municipal Islands Maritime Transport Authority		4,800
Institute of Puerto Rican Culture		2,242
Total	$	915,336

Service Concession Arrangements (SCA)

PRHTA- On September 22, 2011, the PRHTA entered into a toll road concession agreement with Autopistas Metropolitanas Puertos Rico, LLC (the Concessionaire), in which the PRHTA granted to the Concessionaire the right to operate PR-5 and PR-22 highways (the Toll Roads) for a period of 40 years. During the 40-year term, the Concessionaire will have the right to charge and collect tolls imposed on the Toll Roads. The PRHTA received an upfront concession fee payment of $1.136 billion, from which approximately $1.003 billion was used to redeem or defease certain bonds issued

and outstanding associated with the Toll Roads. Pursuant to the provisions of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, the PRHTA recognized a deferred inflow of resources of $1.136 billion, which will be amortized and recognized as revenue over the 40-year term of the agreement. The PRHTA will recognize approximately $28.4 million annually through year 2052 as a result of the amortization of the recognized deferred inflow of resources. The Toll Roads will continue to be presented as an asset of the PRHTA, which at June 30, 2013 amounted to approximately $90.3 million; but are not being depreciated since September 22, 2011 until the end of the agreement in 2052, as the concession agreement required the Concessionaire to return the Toll Roads to the PRHTA in its original or enhanced condition.

On December 20, 1992, the PRHTA and Autopistas de Puerto Rico y Compañía S.E. (Autopistas) entered into a concession agreement, amended in 2004 and in 2009, for the design, construction, operation and maintenance of the Teodoro Moscoso Bridge (the Bridge), a toll bridge which traverses the San Jose Lagoon between the municipalities of San Juan and Carolina. The initial term of this agreement was 35 years, expiring on April 3, 2027; but has been subsequently amended on September 9, 2009 to extend the term to 50 years until 2044. Also, pursuant to the provisions of GASB No. 60, as of June 30, 2013, the PRHTA recognized the Bridge at its estimated fair value of $109.5 million, amortized over an estimated useful life of 50 years, and a deferred inflow of resources, also of $102.8 million that will be amortized and recognized as revenue over the remaining term of the agreement.

The highways and bridge under concession agreement, net at June 30, 2013 and 2012 consisted of (in thousands):

		2013	2012 (As Restated)
Toll Roads Concession	$	90,740	90,740
Toll Roads Concession Improvements		11,334	—
Bridge Concession		67,890	70,080
Total	$	169,964	160,820

The deferred inflows of resources at June 30, 2013 and 2012 consisted of (in thousands):

		2013	2012 (As Restated)
Toll Roads Concession	$	1,097,784	1,114,857
Bridge Concession		67,890	70,080
Total	$	1,165,674	1,184,937

PRPA- On February 27, 2013, the Federal Aviation Administration (FAA) approved the closing of the Lease and Use Agreements (the APP Agreements) entered into on July 27, 2012 between the PRPA and Aerostar Airport Holdings, LLC (Aerostar) with respect to the Luis Munoz Marin International Airport Project (LMMIA Project). The APP Agreements awarded Aerostar the right to operate, manage, maintain, develop and rehabilitate the LMMIA during a term of 40 years, subject to extension conditions as defined, in exchange for an upfront payment of a leasehold fee of $615 million to the PRPA. In addition, upon the closing of the APP Agreements, the PRPA will receive from Aerostar annual rental payments for the first five full reporting years of $2.5 million; then from the sixth full reporting year through and including the thirtieth reporting year, the PRPA will receive annual rental payments equal to 5% of the gross airport revenue earned by Aerostar in such years; and finally from the thirty-first reporting year and each succeeding year, the PRPA will receive annual rental payments equal to 10% of the gross airport revenue earned by Aerostar in such years.

Under the APP Agreements, the PRPA is responsible for certain capital improvements pursuant to the Airline Capital Improvement Program. The present value of these capital improvements was estimated at $3.068 million at transaction date. Pursuant to the provisions of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements, the PRPA* recognized at February 27, 2013, the date of the closing of the APP Agreements, a resulting deferred inflow of resources amounting to $622.5 million and a liability of $3,068 million for the present value of the capital improvement commitments of the PRPA; in exchange for the receipt of the $615 million upfront leasehold fee and the receivable of the annual payments of $2.5 million to be received from Aerostar for the first 5 years since the closing, with a present value estimate of $10.5 million. Since the closing date through June 30, 2013, approximately $5.8 million of the deferred inflow of resources have been amortized into revenue and approximately $15.3 million will be amortized annually into revenue until the term of the APP Agreement. As of June 30, 2013, the PRPA has satisfied approximately $2.2 million of its capital improvement commitments.

The right awarded to Aerostar to operate, manage and rehabilitate the LMMIA (following certain Operating Standards established by the FAA and the Authority) is accompanied with the assignment of all the revenues from the LMMIA facilities through the different lease agreements with airport concessionaries, including food and beverage providers, retailers, ground transportation providers, and other airport users, formerly belonging to the Authority. Aerostar will also be able to charge a maximum level of fees to the airlines at LMMIA, as established in the APP Agreements. The APP Agreements also provide for a series of capital improvement expenditures on the LMMIA from Aerostar over the term of the APP Agreements, with certain required initial projects and general accelerated upgrades, as defined. The PRPA, on the other hand, is required to provide police and fire services to the LMMIA in exchange for an annual compensation of $2.8 million, to be adjusted thereafter based on inflation. The APP Agreements also establishes certain compensation events, the occurrence of which from either party would trigger a compensation amount or activity from the defaulting party to the affected party, as defined. Finally, the PRPA will be responsible to Aerostar, at the term of the APP Agreements, for any capital related improvements not fully reimbursed to Aerostar from the Passenger Facility Charge (PFC) program or other airline charges.

PRPA used $525 of the $615 million upfront leasehold fee received to repay debt obligations to lenders and suppliers, to cover certain related transaction costs and to set up reserve funds to cover early retirement of employees, improvements to regional airports and cover obligations of the PRPA in case of losses sustained on the APP Agreements. The LMMIA assets under this concession agreement amounted to $474.6 million at June 30, 2013; while the deferred inflows of resources at June 30, 2013 amounted to $619.4 million.

(17) Retirement Systems

The Commonwealth sponsors three contributory defined benefit pension plans (collectively known as the Retirement Systems), which are reported in the accompanying statement of fiduciary net position:

- Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS)
- Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS)
- Puerto Rico System of Annuities and Pensions for Teachers (TRS)

Each system is independent; thus, their assets or liabilities may not be transferred from one system to another or used for any purpose other than to benefit the participants of each system.

The Retirement Systems issue financial reports, which are publicly available and include the basic financial statements, the required trend information, and any other required supplementary information. These reports may be obtained by written request to the corresponding retirement system administrator at the addresses detailed in note 1(b).

(a) *ERS*

Plan Description – The ERS is a cost-sharing, multi-employer defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration (the ERS and JRS Administration) and was created by Act No. 447 on May 15, 1951. The ERS began operations on January 1, 1952, at which date, contributions by employers and participating employees commenced. The ERS is a pension trust fund of the Commonwealth. The ERS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The responsibility for the proper operation and administration of the ERS is vested on an eleven-member board of trustees, composed of three participating employees (two members from ERS and one member from JRS) and two pensioners (one member from the ERS and one member from the JRS), who are appointed by the Governor of the Commonwealth. Also, there are four Commonwealth government agency representatives, which are the Secretary of the Treasury, the President of GDB, the Director of the Human Resources of the Commonwealth, and Commissioner of Municipal Affairs. The other two members are the President of the Federation of Mayors and the President of the Association of Mayors.

As of June 30, 2013, the ERS has an unfunded actuarial accrued liability (UAAL) of approximately $22,981 million, representing a 3.1% funding ratio. In the opinion of management and based on information prepared by consulting actuaries, it is estimated that starting in fiscal year 2015, the ERS's assets will be less than its obligations (including bonds payable but excluding its UAAL)

resulting in a deficit net position. In addition, annual cash flow estimates for the foreseeable future are presently estimated to continue to reduce the net position unless other measures are taken. As described in note 16, future employer contributions have been pledged for the payment of debt service, consequently further depletion of ERS's assets could result in the inability to pay benefits.

The estimate of when the ERS's net position will become a deficit and when its assets would be exhausted is based on significant assumptions, including the rate of return on investments, the amount and timing of collections from the Commonwealth for the member, employer contributions and the employer additional contribution (Act No. 32), which as discussed below, was estimated in $120.0 million annually, as well as the estimated participant benefits and the ERS's administrative expenses to be paid each year.

To improve the liquidity and solvency of the ERS, the Commonwealth enacted Act No. 32 of June 25, 2013, which provides for incremental annual contributions from the Commonwealth General Fund beginning in fiscal year 2014 and up to the fiscal year 2033. This additional contribution will be determined annually based on actuarial studies to be performed by the ERS's actuaries. An appropriation for such additional contribution of approximately $120 million was included in the Commonwealth's budget for the fiscal year 2014. However, as a result of budgetary constraints at the present time management believes that approximately $90 million of this amount will not be collected as expected during fiscal year 2014. Further, this additional contribution was reduced to $28.2 million for the Commonwealth's proposed budget for the fiscal year 2015.

The ERS's funding requirements, together with the funding requirements of the JRS and the TRS, could have a direct negative effect on the Commonwealth's General Fund, since the Commonwealth is the plan sponsor and is obligated to make contributions to fund each of the systems.

If the Commonwealth's financial condition does not improve as a result of fiscal and budgetary measures it is taking, its ability to repay its obligations, including its regular employer contributions to the ERS and its additional contribution as provided by Act No. 32, for the upcoming years, may continue to be adversely affected, and could also affect the payment of benefits and the repayment of the ERS's bond payable.

To address these issues, the ERS and the Commonwealth, with the assistance of the ERS external consulting actuaries, concluded that, in addition to other measures, annual increases in the employers' contribution rate would be required to fully fund pensions, without having to liquidate the ERS investment portfolio. Accordingly, on July 6, 2011, the Commonwealth enacted Act No. 116, increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2011-2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

Other measures taken to improve the funding ratio of ERS, include 1) improving the collection of late contributions by receiving such contributions directly from the Municipal Revenue Collection Center (CRIM) when a municipality fails to send their contributions within 30 days from the due date or from the Department of Treasury of the Commonwealth (Hacienda) in the case of agencies; 2) implementation of Act No. 70 establishing early retirement incentives; 3) revision of the

Employee Personal Loan Policy by limiting personal and cultural loan amounts to $5,000 each, from $15,000 and $10,000, respectively; and 4) the receipt of a special contribution from the Commonwealth that was invested in junior subordinated capital appreciation bonds issued by COFINA (the COFINA Bonds) amounting to $162.5 million in 2011.

Act No. 70 established a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70 also establishes that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees' monthly salary. Benefits under this program will be paid by the General Fund of the Commonwealth and by the public corporations, covering their respective employees until the plan member reaches the later of age 55 for members under Act No. 447 or age 65 for members under Act 1, or the date the plan member would have completed 30 years of service had the member continued its employment. The ERS will be responsible for benefit payments afterwards. In addition, the General Fund and the public corporations will also be required to make the required contributions to the ERS. As of June 30, 2013, the ERS has recorded a liability of approximately $16 million for its responsibility as an employer under Act No. 70.

Furthermore, on April 4, 2013, the Governor of Puerto Rico signed into law Act No. 3 of 2013, which represents a comprehensive reform of the ERS. Act No. 3 became effective on July 1, 2013 and amended the provisions of the different benefit structures under the ERS, including, but not limited to, the following:

1. For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 were frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.

2. Increased the minimum pension for current retirees from $400 to $500 per month.

3. The retirement age for Act No. 447 participants will be gradually increased from age 58 to age 61.

4. The retirement age for active System 2000 participants will be gradually increased from age 60 to age 65.

5. Transitioning active participants under Act No. 1 and Act No. 447 to a defined contribution plan similar to System 2000.

6. Eliminated the "merit annuity" available to participants who joined the ERS prior to April 1, 1990.

7. The retirement age for new employees was increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.

8. The employee contribution rate was increased from 8.275% to 10%.

9. For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.

10. Eliminated or reduced various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from $600 to $200 and was eliminated for future retirees. The summer bonus was eliminated. Resulting employer contribution savings will be contributed to the ERS.

11. Disability benefits were eliminated and substituted for a mandatory disability insurance policy.

12. Survivor benefits were modified.

The ERS consists of different benefit structures pursuant to Act No. 447 of 1951, as amended, including a cost-sharing multi-employer contributory defined benefit program and a cash balance program, similar to a cash balance plan. The ERS is sponsored by the Commonwealth, public corporations, and municipalities of Puerto Rico. Substantially all full-time employees of the Commonwealth and its instrumentalities (Commonwealth Agencies, Municipalities, and Public Corporations, including the ERS) are covered by the ERS. All regular, appointed, and temporary employees of the Commonwealth at the date of employment become plan members of the ERS. The ERS is optional for Commonwealth officers appointed by the Governor and Head of Agencies.

Plan members, other than those who joined the ERS after March 31, 1990, are eligible for the benefits described below:

Retirement Annuity – Plan members are eligible for a retirement annuity upon reaching the following age:

Policemen and Firefighters	Other Employees
50 with 25 years of credited service	55 with 25 years of credited service
58 with 10 years of credited service	58 with 10 years of credited service

Plan members are eligible for monthly benefit payments determined by the application of stipulated benefit ratios to the plan member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by the ERS. The annuity, for which a plan member is eligible, is limited to a minimum of $400 per month and a maximum of 75% of the average compensation.

Merit Annuity – Plan members are eligible for merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65% and a maximum of 75% of the average compensation. As a result of the enactment of Act No. 3 of April 4, 2013, effective July 1, 2013, merit annuities will no longer be available to participants who joined the ERS after April 1, 1990.

Deferred Retirement Annuity – A participating employee who ceases to be an employee of the Commonwealth after having accumulated a minimum of 10 years of credited service qualifies for retirement benefits provided his/her contributions to the ERS are left within the ERS until attainment of 58 years of age.

Coordinated Plan – On the coordinated plan, the participating employee contributes 5.775% of the monthly salary for the first $550 and 8.275% for the excess over $550. By the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced by the following:

- $165 per month if retired with 55 years of age and 30 years of credited service.
- $110 per month if retired with less than 55 years of age and 30 years of credited service.
- All other between $82 and $100 per month.
- Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over $165 per month.

Noncoordinated Plan – On the noncoordinated plan, the participating employee contributes 8.275% of the monthly salary and does not have any change on the pension benefits upon receiving social security benefits.

Reversionary Annuity – A plan member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The life annuity payments would start after the death of the retiree for an amount not less than $240 yearly or greater than the annuity payments being received by the retiree.

Occupational Disability Annuity – A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled, is eligible for a disability annuity of 50% of the compensation received at the time of the disability.

Nonoccupational Disability Annuity – A participating employee totally and permanently disabled for causes not related to his/her occupation, and with no less than 10 years of credited service, is eligible for an annuity of 1.5% of the average compensation of the first 20 years of credited service increased by 2% for every additional year of credited service in excess of 20 years.

Death Benefits:

Occupational:

Surviving Spouse – annuity equal to 50% of the participating employee’s salary at the date of the death.

Children – $10 per month for each child, minor or student, up to a maximum benefit per family of 100% of the participating employee’s salary at the date of the death. If no spouse survives, or dies while receiving the annuity payments, each child, age 18 or under, is eligible to receive an annuity of $20 per month up to the attainment of 18 years of age or the completion of his/her studies.

Nonoccupational:

Beneficiary – the contributions and interest accumulated as of the date of the death plus an amount equal to the annual compensation at the time of death.

Postretirement – Beneficiary with surviving spouse age 60 or over and child, age 18 or under, up to 50% (60%, if not covered under Title II of the Social Security Act) of retiree's pension or otherwise the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $1,000.

Refunds – A participating employee who ceases his/her employment with the Commonwealth without right to a retirement annuity has the right to a refund of the contributions to the ERS, plus any interest earned thereon.

Amendments to Benefits Structure for Plan Members who Joined the ERS on or After April 1, 1990 – Act No. 1 of February 16, 1990, made certain amendments applicable to new participating employees joining the ERS effective April 1, 1990. These changes consist principally of an increase in the retirement age from 55 to 65, a decrease in the benefit percentage of the average compensation in the occupational disability and occupational death benefits annuities from 50% to 40%, and the elimination of the merit annuity for participating employees (except policemen and firemen) who have completed 30 years of creditable service.

Special Benefits:

During fiscal years 2003 to 2007, the Commonwealth granted additional benefits to the ERS's retirees. As of June 30, 2013, these benefits are being funded through special appropriations from the Commonwealth for the amount corresponding to the Commonwealth agencies and from the public corporations and municipalities. Special benefits include the following:

- Christmas Bonus – An annual bonus of $600 for each retiree and disabled member paid each December. The ERS pays $150 per retiree and disabled member and the remaining bonus is paid by the Commonwealth.
- Summer Bonus – An annual bonus of $100 for each retiree, beneficiary, and disabled member paid each July. This benefit is prorated if there are multiple beneficiaries and is funded by the Commonwealth.
- Medication Bonus – An annual bonus of $100 for each retiree, beneficiary, and disabled member paid each July to cover health costs. Evidence of coverage is not required. This benefit is funded by the Commonwealth.
- Cost of Living Adjustment for Pension Benefits – Act No. 10 of May 21, 1992, provided for increases of 3% every three years, of the pensions paid by the ERS to those plan members with three or more years of retirement. Act No. 10 requires further legislation to grant this increase every three years, subject to the presentation of actuarial studies regarding its costs and the source of financing. Since fiscal year 1992 to 2007 there have been other acts addressing the cost of living allowance (C.O.L.A.), such as Act No. 207 of August 13, 1995; Act No. 221 of August 9, 1998; Act No. 40 of June 13, 2001; Act No. 157 of June 27, 2003; and Act No. 35 of April 24, 2007.

On April 24, 2007, the Governor signed Act No. 35 to provide for an increase of 3% of the pension paid by the ERS to those plan members whose monthly pension was less than $1,250, effective on July 1, 2008.

To protect the financial health of the ERS, the increases granted pursuant to the above laws are being financed through annual appropriations from the Commonwealth and contributions from municipalities and public corporations.

Early Retirement Programs – The Municipality of San Juan issued Resolution No. 41, dated May 5, 2008, which provided an early retirement program for the municipalities' employees. The Municipality of San Juan will reimburse the annuities and other benefits paid by the ERS during a five-year period, plus the employer and employee contributions with respect to the plan members covered until they reach the normal retirement age.

The Puerto Rico Environmental Quality Board (EQB) implemented an early retirement program for its employees under Act No. 7 dated August 9, 2008. The EQB has already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the ERS in four installments on each July 31 starting in 2009 through 2012. The EQB was at default on the retirement plan payment, so they requested a new payment plan. The ERS Board of Trustees approved a payment plan for the debt balance due of the retirement program for 24 months starting in March 2014.

Amendment to Act No. 447 Effective January 1, 2000, to Create System 2000 – On September 24, 1999, Law 305, an amendment to Act No. 447 of May 15, 1951, which created the ERS, was enacted to provide for a new benefit structure, similar to a cash balance plan, known as System 2000, to cover employees joining the ERS on or after January 1, 2000.

Employees participating in the ERS as of December 31, 1999, were allowed to elect either to stay in the defined benefit structure or transfer to System 2000. People joining the public sector on or after January 1, 2000, are only allowed to become members of System 2000. Under System 2000, contributions received from participants are pooled and invested by the ERS, together with the assets corresponding to the defined benefit structure. Future benefit payments under the original defined benefit structure and System 2000 will be paid from the same pool of assets. As a different benefit structure, System 2000 is not a separate plan, and as such, is not presented separately from the original defined benefit structure, pursuant to the provisions of GASB Statement No. 25. The Commonwealth does not guarantee benefits at retirement age.

The annuity benefits to participants is based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested as instructed by the employee in an account which either: (1) earns a fixed rate based on the two-year Constant Maturity Treasury Notes or, (2) earns a rate equal to 90% of the return of the ERS's investment portfolio (net of management fees), or (3) earns a combination of both alternatives. Plan members receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability benefits are not granted under System 2000 rather should be provided to those plan members that voluntarily elect to participate in a private insurance long-term disability program. The employers' contributions (11.275% of the employee's salary for 2013) with respect to employees under System 2000 will continue but will be used to fund the defined benefit plan. System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or after January 1, 2000.

At June 30, 2013, System 2000's membership consisted of 63,508 current participating employees.

As discussed above, Act No. 3 of 2013 substantially amends the provisions of the previous Acts governing the ERS benefit structures and programs.

Funding Policy – The contribution requirement to the ERS is established by law and is not actuarially determined. Required employers' contributions consist of 11.275% of applicable payroll in the cases of municipalities, central government, and public corporations. Required employee contribution consists of 5.775% of the first $550 of the monthly salary with the excess at 8.275% for the coordinated benefit structure and 8.275% of the total monthly salary for participating employee's contributions for the noncoordinated benefit structure. If necessary, additional non payroll related contributions from the Commonwealth should ultimately cover any deficiency between the participating employers' and employee's contributions and the ERS's pension benefit obligations and general and administrative deductions.

The special benefits contributions of approximately $203.9 million in 2013 mainly represent contributions from the General Fund of the Commonwealth for the special benefits granted by special laws. The funding of the special benefits is provided to the ERS through legislative appropriations each July 1. The legislative appropriations are considered estimates of the payments to be made by the ERS for the special benefits. Deficiencies in legislative appropriations are covered by the ERS's own funds until recovered through future legislative appropriations. Any surplus of legislative appropriations collected over special benefits paid is combined with the assets held in trust for the payment of other pension benefits.

During the year ended June 30, 2013, ERS increased the assumed rate of return from 6.0% in 2012 to 6.4 % in 2013 which resulted in a decrease of approximately $290 million in the actuarial accrued liability.

As discussed above, Act No. 3 of 2013 substantially amends the provisions of the previous Acts governing the ERS funding policies.

(b) ***JRS***

Plan Description – The JRS is a single-employer defined benefit pension plan administered by the ERS and JRS Administration and was created by Act No. 12 on October 19, 1954 (Act No. 12 of 1954). The JRS is a pension trust fund of the Commonwealth and is not an employer. The JRS provides retirement benefits to the employees of the judiciary branch of the Commonwealth, through the Office of the Administration of Court Facilities (the Employer). The JRS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The responsibility for the proper operation and administration of the JRS is vested on an eleven-member board of trustees, composed of three participating employees (two members from ERS and one member from JRS) and two pensioners (one member from ERS and one member from JRS), who are appointed by the Governor of the Commonwealth. Also, there are four Commonwealth government agency representatives, which are the Secretary of the Treasury, the President of GDB, the Commissioner of Municipalities Affairs, and the Executive Director of the Human Resources

Office of the Commonwealth. The other two members are the President of the Federation of Mayors and the President of the Association of Mayors.

As of June 30, 2013, the JRS has an unfunded actuarial accrued liability for pension benefits of approximately $357.7 million, representing a 14.2% funding ratio. In the opinion of management and based on information prepared by consulting actuaries, if measures are not taken soon to deal with this situation, the JRS's assets are estimated to be exhausted by the fiscal year 2019. The JRS's funding requirements, together with the funding requirements of the ERS and the TRS, could have a direct negative effect on the Commonwealth's General Fund, since the Commonwealth is the plan sponsor and is obligated to make contributions to fund each of the systems.

The estimate of when the JRS's assets would be exhausted is based on significant assumptions, including the rate of return on investments, the amount and timing of collections from the Commonwealth for the member and employer contributions, as well as the estimated participant benefits and the JRS's administrative expenses to be paid each year. If the Commonwealth's financial condition does not improve as a result of fiscal and budgetary measures it is taking, its ability to repay its obligations, including its employer contributions to the JRS for the upcoming years, may be adversely affected. Actual result could differ from this estimate.

To address these issues, the JRS and the Office of the Administration of Court Facilities (the Employer) entered into an agreement to increase the employer contributions from 20% to 30.34%, effective on July 1, 2008. Employees' contributions consist of 8% of the employees' monthly salary. Contributions from the Commonwealth should ultimately cover any deficiencies between the employer and employee's contributions and JRS's pension benefit obligation and administrative costs.

Additionally, to help address the funded status situation, Act No.162 of 2013 was enacted to amend certain provisions of the retirement system. However, many provisions of Act No. 162 were ruled unconstitutional or to apply only prospectively.

The ERS and JRS Administration allocated 1.73% of its general and administrative expenses to the JRS during the year ended June 30, 2013. The methodology used to determine the allocation of the Administration's expenses is based on total Employer and participating employees' contributions to the JRS, divided by the aggregate total of employers and participants' contributions to the JRS and ERS, combined.

During the year ended June 30, 2013, the JRS liquidated investments of approximately $3 million to cover the Department of Treasury overdraft.

Under the terms of Act No. 12 of 1954, as amended, all judges of the judiciary branch of the Commonwealth are plan members of the JRS. Members of the JRS are eligible for the following benefits:

Retirement Annuity – Plan members with 10 years of credited service are eligible for retirement upon reaching 60 years of age.

Plan members are eligible for monthly benefit payments determined by the application of a stipulated benefit to the plan member's highest salary received as judge. The annuity for which a plan member is eligible, is limited to a minimum of 25% and a maximum of 75% of the highest salary received as a judge.

Reversionary Annuity – A plan member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The payments would start after the death of the retiree, for an amount not less than $120 yearly or greater than the annuity payments being received by the retiree.

Occupational Disability Annuity – A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled, is eligible for a disability annuity of 50% of the compensation received at the time of the disability, payable as an annuity, reduced by any payments received from the state insurance fund under the Workmen's Accident Compensation Act.

Nonoccupational Disability Annuity – A participating employee totally and permanently disabled for causes not related to his/her occupation, and with no less than 10 years of credited service, is eligible for annuity of 30% of the average compensation of the first 10 years of credited services, increased by 1% for every additional year of credited service in excess of 10 years, up to a maximum of 50% of the average compensation.

Death Benefits:

Occupational:

Surviving spouse – Annuity equal to 50% of the participating employee's salary at the date of the death.

Children – $10 per month for each child, minor or student, up to a maximum benefit per family of 75% of the participating employee's salary at the date of the death. If no spouse survives or dies while receiving the annuity payments, each child, 18 or under, is eligible to receive an annuity of $20 per month up to the attainment of 18 years of age or the completion of his/her studies.

Preretirement:

While in active service, the contributions and interest accumulated as of the date of the death, plus an amount equal to the annual compensation at the time of the death. While not in active service, the benefit equals a refund of the accumulated contributions.

Postretirement:

Surviving spouse and dependent children – up to 60% of the retiree's pension, payable for life for a surviving spouse and/or disabled children and payable until age 18 or completion of studies, if later, for nondisabled children.

Other designated by the retiree – the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $500.

Refunds – A participating employee who ceases his/her employment with the Commonwealth without right to a retirement annuity has the right to a refund of the contributions to the JRS, plus any interest earned thereon.

Special Benefits - Special benefits include the following:

- Christmas Bonus – An annual bonus of $600 for each retiree and disabled member paid each December. The JRS pays $150 per retiree and disabled member and the remaining bonus is paid by the Commonwealth.
- Summer Bonus – An annual bonus of $100 for each retiree, beneficiary, and disabled member paid each July. This benefit is prorated if there are multiple beneficiaries and is funded by the Commonwealth.
- Medication Bonus – An annual bonus of $100 for each retiree, beneficiary, and disabled member paid each July to cover health costs. Evidence of coverage is not required. This benefit is funded by the Commonwealth.
- Cost-of-living Adjustments (COLA) – Effective January 1, 2001, commencing January 1, 2002 and subsequently every three years thereafter, the annual benefit is increased by 3% for retirees and disabled members provided that the member had been receiving payments for at least three years (Section 236c). These COLAs are paid by the General Fund of the Commonwealth. In addition, an ad-hoc 3% COLA was granted effective January 1, 1999 and is paid by the JRS (Section 236b).

Funding Policy – The contributions to the JRS are established by law and are not actuarially determined. Required contributions consist of 30.34% of applicable payroll for the Employer and 8% for the participating employees. Contributions from the Commonwealth should ultimately cover any deficiency between the Employer’s and employees’ contributions and the JRS’s pension benefit obligations and administrative costs.

The special benefits contributions of approximately $1.4 million in 2013 represent contributions from the General Fund of the Commonwealth for the special benefits granted by special laws. The funding of the special benefits is provided to the JRS through legislative appropriations each July 1. The legislative appropriations are considered estimates of the payments to be made by the JRS for the special benefits. Deficiencies in legislative appropriations are covered by the JRS’s own funds until recovered through future legislative appropriations. Any surplus of legislative appropriations collected over special benefits paid is combined with the assets held in trust for the payment of other pension benefits.

During the year June 30, 2013, JRS increased the assumed rate of return from 6.1% in 2012 to 6.3% in 2013, which resulted in a decrease of approximately $9 million in the actuarial accrued liability.

(c) *TRS*

Plan Description – The Puerto Rico System of Annuities and Pensions for Teachers (TRS) is a cost-sharing multiple-employer defined benefit pension plan administered by the Puerto Rico Teachers Retirement System and was created by Act No. 91 of March 29, 2004, that superseded Act No. 218 of May 6, 1951. The TRS is considered an integral part of the Commonwealth's financial reporting entity and is included in the Commonwealth's basic financial statements as a pension trust fund. The TRS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The responsibility for the proper operation and administration of the TRS is vested in a board of trustees, composed of nine members, as follows: three ex-officio members, which are the Secretary of the Treasury, the Secretary of the Department of Education, and the President of the GDB; one member who is a representative of a teacher's organization designated by the Governor; three teachers of the TRS appointed by the Governor, one of which is a currently certified teacher in active service, and two who represent retired teachers; one member who is a representative of the entity in accordance with Act No. 45 of February 25, 1998, as amended; and one additional member, as representative of the public interest, with knowledge of and experience in the administration and operation of financial systems, appointed by the Governor.

As of June 30, 2013, the TRS has an unfunded actuarial accrued liability for pension benefits of approximately $10,345 million, representing a 15.6% funding ratio. Certain measures have been taken to improve the TRS's funding status. However, in the opinion of management and based on information prepared by consulting actuaries, if additional measures are not taken soon to deal with this situation, the TRS's assets are estimated to be exhausted by the fiscal year 2020. The TRS's funding requirements, together with the funding requirements of the ERS and the JRS, could have a direct negative effect on the Commonwealth's General Fund, since the Commonwealth is the plan sponsor and is obligated to make contributions to fund each of the systems.

The estimate of when the TRS's assets would be exhausted is based on significant assumptions, including the rate of return on investments, the amount and timing of collections from the Commonwealth for member and employers' contributions, as well as the estimated participant benefits and the TRS's administrative expenses to be paid each year. If the Commonwealth's financial condition does not improve as a result of fiscal and budgetary measures it is taking, its ability to repay its obligations, including its employer contributions to the TRS for the upcoming years may be adversely affected. Actual result could differ from this estimate.

To address these issues, the TRS and the Commonwealth, with the assistance of the TRS's external consulting actuaries, concluded that annual increases in the employers' contribution rate were required to assist in funding pension payments, without having to liquidate the TRS's investment portfolio. As a result of such determination, the Commonwealth approved Act No. 114 on July 5, 2011, establishing annual employer contribution increases of 1% of covered payroll for the fiscal years 2012 to 2016. In addition, it establishes annual employer contribution increases of 1.25% for the fiscal years 2017 to 2021.

All active teachers of the Puerto Rico Department of Education and the employees of the TRS become plan members of the TRS at their date of employment. Licensed teachers working in private schools or other educational organizations have the option to become members of the TRS so long as the required employer and employee contributions are satisfied.

The plan members of the TRS are eligible for the benefits described below:

Retirement Annuity – Plan members are eligible for monthly benefit payments determined by the application of stipulated benefit ratios to the plan member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by the TRS. The annuity for which a plan member is eligible is limited to a minimum of $400 per month and a maximum of 75% of the average compensation.

The plan members are eligible for retirement annuity benefits upon complying with the following:

Minimum Age	Years of creditable services	Retirement annuity compensation
50 and 55	30 or more	75% of average compensation
Under 50	30 or more	65% of average compensation
60	At least 10, but less than 25	1.8% of average compensation times years of service
50	At least 25, but less than 30	1.8% of average compensation timers years of service
47, but less than 50	At least 25, but less than 30	95% of 1.8% of average compensation times years of service

Deferred Retirement Annuity – A participating employee who terminates service before age 60, after having accumulated a minimum of ten years of creditable services, qualifies for a deferred retirement annuity payable beginning at age 60. A participating employee who has completed 25 or more years of creditable services and is under the age of 47 at termination, qualifies for a deferred retirement annuity payable beginning at age 47. The vested rights described above are provided if his/her contributions to the TRS are left within the TRS until the attainment of the respective retirement age.

Occupational Disability Annuity – A participating employee, who as a direct result of the performance of his/her occupation becomes disabled, is eligible for an annuity of 1.8% of average compensation based on the highest 60 months or the number of months of creditable services, if less than five years, recognized by the TRS, times years of creditable services; but not less than $400 per month.

Nonoccupational Disability Annuity – A participating employee disabled for causes not related to his/her occupation, and with at least five years of credited service, is eligible for an annuity of 1.8% of average compensation based on the highest 60 months recognized by the TRS, times years of service; but not less than $400 per month.

Death Benefits:

Preretirement – The beneficiaries receive the contributions made to the plan and 2% interest accumulated as of the date of death (after discounting debts with the TRS), plus an amount equal to the annual compensation of the member at the time of death.

Postretirement – The surviving spouse receives 50% of the retiree’s pension and if there are children under 22 years of age or disabled (until disability ceases), they receive the other 50% of the pension. If there is no surviving spouse or children who qualify, the beneficiaries receive the excess, if any, of the accumulated contributions at the time of retirement over the total annuity benefits received before death, limited to a minimum of $1,000.

Refunds – A participating employee who ceases his/her employment with the Commonwealth without the right to a retirement annuity has the right to a refund of the employee contributions paid to the TRS, plus any interest earned thereon.

Early Retirement Program – On January 27, 2000, Act No. 44 was approved, which provided that effective March 9, 2000, plan members were eligible for early retirement upon attaining the age of 50 and 28 years of services in the first year of implementation and age 50 and 25 years of service in subsequent years. Those who select early retirement under these conditions will receive monthly benefits equal to 75% of their average compensation, which is computed based on the highest 36 months of compensation recognized by the TRS. Effective July 31, 2001, the option for early retirement was closed.

Special Benefits – Special benefits include the following:

- Christmas Bonus – An annual bonus of $600 for each retiree and disabled member paid each December. The TRS pays $150 per retiree and disabled member and the remaining bonus is paid by the Commonwealth.
- Summer Bonus – An annual bonus of $100 for each retiree, beneficiary, and disabled member paid each July. This benefit is prorated if there are multiple beneficiaries and is funded by the Commonwealth.
- Medication Bonus – An annual bonus of $100 for each retiree, beneficiary, and disabled member paid each July to cover health costs. Evidence of coverage is not required. This benefit is funded by the Commonwealth.
- Cost of Living Adjustments – Act No. 62 of September 4, 1992 provided, subject to the approval of the Legislature of the Commonwealth (the Legislature), for increases of 3% every three years in pensions to those plan members with three or more years of retirement. In years 1995, 1998, 2001, 2004, and 2007, the Legislature has replicated the benefit granted per Act No. 62 of September 4, 1992. This benefit is funded by the Commonwealth.

- Other Pension Increase Acts – Act No. 128 of June 10, 1967 and Act No. 124 of June 8, 1973 provided a pension increase (from 2% to 10%) based on the monthly pension, and Act No. 47 of June 1, 1984, provided a pension increase based on credited service worked. This increase is funded by the Commonwealth.
- Cultural Loans – Act No. 22 of June 14, 1965 provides a 50% repayment of the interest that would be paid by the active teachers and retirees. This benefit is funded by the Commonwealth.
- Death Benefit – Act No. 272 of March 29, 2004 increases the death benefit of $500 to $1,000. This $500 increase is funded by the Commonwealth.

Funding Policy – Participating employees are required to contribute 9% of their compensation to the TRS, while the employer was required to contribute 10.5% of the applicable payroll for the year ended June 30, 2013. However, Act No. 114 provides for annual employer contribution increases of 1% for the fiscal years 2013 to 2016, and 1.25% annually for the fiscal years 2017 to 2021. Commonwealth contributions should ultimately cover any deficiency between the participating employees' contributions and the TRS's pension benefit obligations and administrative costs.

The special benefits contributions of approximately $54.1 million in 2013 represent contributions from the General Fund of the Commonwealth for the special benefits granted by special laws, as detailed in note 2. The funding of the special benefits is provided to the TRS through legislative appropriations each January 1 and July 1. The legislative appropriations are considered estimates of the payments to be made by the TRS for the special benefits. Deficiencies in legislative appropriations are covered by the TRS's own funds until recovered through future legislative appropriations. Any surplus of legislative appropriations collected over special benefits paid is combined with the assets held in trust for the payment of other pension benefits.

During the year ended June 30, 2013, the TRS increased the assumed rate of return from 5.95% in 2012 to 6.25% in 2013, which resulted in a decrease of approximately $430 million in the actuarial accrued liability.

Other relevant information on the Commonwealth's Retirement Systems is presented below (as of June 30, 2013, for ERS, JRS, and TRS):

(d) ***Membership as of June 30, 2013***

		ERS	JRS	TRS	Total
Retirees currently receiving benefits	$	111,044	431	35,977	147,452
Current participating employees		125,671	364	41,553	167,588
Total		236,715	795	77,530	315,040

(e) ***Annual Pension Cost and Net Pension Obligation***

The Commonwealth's annual pension cost and net pension obligation of the three pension plans as of and for the year ended June 30, 2013 were as follows (expressed in thousands):

	ERS	JRS	TRS	Total
Annual required contributions	$ 2,192,821	38,501	736,591	2,967,913
Interest on net pension obligation	512,791	4,572	146,813	664,176
Adjustment to annual required sponsors' contributions	(743,529)	(6,977)	(131,297)	(881,803)
Annual pension cost	1,962,083	36,096	752,107	2,750,286
Statutory sponsors' contributions made	(637,576)	(11,402)	(187,444)	(836,422)
Increase in net pension obligation	1,324,507	24,694	564,663	1,913,864
Net pension obligation at beginning of year	8,621,475	75,094	2,462,232	11,158,801
Net pension obligation at end of year	$ 9,945,982	99,788	3,026,895	13,072,665

The net pension obligation at June 30, 2013 for ERS, JRS and TRS of approximately $13.1 billion, is recorded in the accompanying statement of net position.

The following tables show the most significant actuarial methods and assumptions used to estimate the net pension obligation:

	ERS	JRS	TRS
Date of latest actuarial valuation	June 30, 2013	June 30, 2013	June 30, 2013
Actuarial-cost method	Projected unit credit cost method with straight proration based on service to decrement	Projected unit credit cost method with straight proration based on service to decrement	Entry age normal
Amortization method	30 years closed, level dollar	30 years closed, level percentage of payroll	30 years closed, level percentage of payroll
Remaining amortization period	24 years	13 years	24 years

The annual required contribution for the year ended June 30, 2013, was determined by actuarial valuations for each of the pension plans as described below:

	ERS	JRS	TRS
Asset-valuation method	Market value of assets	Market value of assets	Market value of assets
Actuarial assumptions:			
Inflation	2.5%	2.5%	2.5%
Investment rate of return	6.4	6.3	6.3
Projected payroll growth	2.5	—	—
Projected salary increases per annum	3.0	3.0	3.5% (general wage inflation, plus service-based merit increase)
Cost-of-living adjustments	0.99% annually to approximate 3.0% triennial increases	0.99% annually to approximate 3.0% triennial increases	None assumed
Mortality	Pre-retirement Mortality: For general employees and Mayors, RP-2000 Employee Mortality Rates for males and females projected on a generational basis using Scale AA. For members covered under Act 127, RP-2000 Employee Mortality Rates with blue collar adjustments for males and females, projected on a generational basis using Scale AA. As generational tables, they reflect mortality improvements both before and after the measurement date.	Pre-retirement Mortality: RP-2000 Employee Mortality Rates with white collar adjustments for males and females, projected on a generational basis using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date.	Pre-retirement Mortality: RP-2000 Employee Mortality Rates for males and females, projected on a generational basis using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date.
	100% of deaths while in active service are assumed to be occupational for members covered under Act 127. For other members, 25% of deaths while in active service are assumed to be occupational and 75% are assumed to be nonoccupational.	Among deaths while in active service, 50% are assumed to be occupational, 50% are assumed to be nonoccupational.	Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 equal to 92% of the rates from the UP-1994 Mortality Table for Males and 87% of the rates from the UP-1994 Mortality Table for females.

ERS	JRS	TRS
Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for females. The rates are projected on a generational basis starting in 1994 using Scale AA. table, As a generational table, it reflects mortality improvements both before and after the measurement date.	Post-retirement Healthy Mortality: RP-2000 Healthy Annuitant Mortality Rates with white collar adjustments for males and females, projected on a generational basis using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date.	Post-retirement Healthy Mortality: The rates are projected on a generational basis starting in 1994 using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date.
Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality table for females. No provision was made for future mortality improvement for disabled retirees.	Post-retirement Disabled Mortality: RP-2000 Disabled Annuitant Mortality Rates, without projection. No provision was made for future mortality improvement for disabled retirees.	Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 equal to the rates in the UP-1994 Mortality Table for males and females. No provision was made for future mortality improvement for disabled retirees.

The ERS, JRS, and TRS statutory contribution as a percentage of the required contribution for the current year and each of the two preceding years is as follows:

	ERS	JRS	TRS
Year ended June 30, 2013	29.1%	29.6%	25.5%
Year ended June 30, 2012	29.2%	34.2%	26.8%
Year ended June 30, 2011	40.4%	37.1%	30.3%

(f) ***Three Year Trend Information***

The three year trend information is as follows (dollars expressed in thousands):

		ERS	JRS	TRS
Annual pension cost (APC):				
Year ended June 30, 2013	$	1,962,083	36,096	752,107
Year ended June 30, 2012		1,903,046	32,274	673,891
Year ended June 30, 2011		1,656,181	29,113	550,400
Percentage of APC contributed:				
Year ended June 30, 2013		32.5%	31.6%	24.9%
Year ended June 30, 2012		31.0	35.5	25.9
Year ended June 30, 2011		42.4	37.6	29.4
Net pension obligation (asset):				
At June 30, 2013	$	9,945,982	99,788	3,026,895
At June 30, 2012		8,621,475	75,094	2,462,232
At June 30, 2011		7,308,172	54,268	1,962,912

(g) ***Funded Status***

Funded status of the pension plans as of June 30, 2013, the most recent actuarial valuation date, is as follows (dollars expressed in thousands):

		ERS	JRS	TRS	Total
Actuarial accrued liability	$	(23,712,081)	(416,734)	(12,251,995)	(36,380,810)
Actuarial value of assets		731,342	59,012	1,906,882	2,697,236
Unfunded actuarial accrued liability	$	(22,980,739)	(357,722)	(10,345,113)	(33,683,574)
Funded ratio		3.1%	14.2%	15.6%	7.4%
Covered payroll	$	3,489,096	32,138	1,248,674	4,769,908
Unfunded actuarial accrued liability as a percentage of covered payroll		658.6%	1,113.1%	828.5%	706.2%

The schedule of funding progress presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations.

(18) Other Postemployment Benefits

The Commonwealth provides postemployment healthcare benefits through defined benefit plans that are administered by the ERS and JRS Administration or by the TRS Administration:

- Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution (ERS MIPC)
- Retirement System for the Judiciary of the Commonwealth of Puerto Rico Medical Insurance Plan Contribution (JRS MIPC)
- Puerto Rico System of Annuities and Pensions for Teachers Medical Insurance Plan Contribution (TRS MIPC)

(a) *Plans Descriptions*

ERS MIPC and TRS MIPC are unfunded cost-sharing multiple-employer defined benefit other postemployment (OPEB) plans sponsored by the Commonwealth. JRS MIPC is an unfunded, single-employer defined benefit OPEB plans sponsored by the Commonwealth. These OPEB plans were created under Act No. 95 approved on June 29, 1963. Healthcare benefits are provided through insurance companies whose premiums are paid by the retiree with the Commonwealth providing a matching share. ERS MIPC covers substantially all full time employees of: (1) the Commonwealth's primary government and (2) certain municipalities of Puerto Rico and certain component units of the Commonwealth not having their own postemployment benefit plan. JRS MIPC covers all judges of Judiciary Branch of the Commonwealth. The TRS MIPC covers all active teachers of the Department of Education of the Commonwealth and employees of the TRS Administration.

Commonwealth employees become plan members upon their date of employment. Plan members are eligible for benefits upon reaching the following age:

ERS MIPC:
- Police and Firemen:
  - 50 with 25 years of credited service
  - 58 with 10 years of credited service
- Other Employees:
  - 55 with 25 years of credited service
  - 58 with 10 years of credited service

JRS MIPC:
- 60 with 10 years of credited service

TRS MIPC:
- 47 with 25 years of credited service
- 60 with 10 years of credited service

Funding Policy – The contribution requirement of ERS MIPC, JRS MIPC and TRS MIPC are established by Act No. 95 approved on June 29, 1963. Its benefit consists of a maximum of $100 per month per retiree. All these OPEB plans are financed by the Commonwealth on a pay-as-you-go basis. There is no contribution requirement for plan members during active employment. Retirees

contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution.

(b) ***Membership as of June 30, 2013***

	ERS	JRS	TRS	Total
Retirees and beneficiaries currently receiving benefits	124,497	489	39,065	164,051
Current participating employees	125,671	364	41,553	167,588
Total	250,168	853	80,618	331,639

(c) ***Annual OPEB costs and Net OPEB obligation***

The annual OPEB cost and the annual required contribution (ARC) were computed as part of an actuarial valuation in accordance with parameters of GASB Statement No. 45 based on current years demographic data.

The Commonwealth's annual OPEB cost and the net OPEB obligation for the postemployment healthcare benefits plans as of and for the year ended June 30, 2013 were as follows (expressed in thousands):

	ERS MIPC	JRS MIPC	TRS MIPC	Total
Annual OPEB cost:				
ARC	$ 154,999	643	45,669	201,311
Interest on net OPEB obligation	5,265	35	1,362	6,662
Adjustment to annual required contribution	(11,881)	53	(6,664)	(18,492)
Annual OPEB cost	148,383	731	40,367	189,481
Statutory sponsor's contributions made	(91,823)	(291)	(34,239)	(126,353)
Increase in net OPEB obligation	56,560	440	6,128	63,128
Net OPEB obligation at beginning of year	166,757	947	47,540	215,244
Net OPEB obligation at year end	$ 223,317	1,387	53,668	278,372

The net OPEB obligation at June 30, 2013 for ERS MIPC, JRS MIPC, and TRS MIPC totaling $278.4 million is recorded in the accompanying statement of net position.

(d) ***Actuarial Assumptions***

Actuarial valuations of an ongoing plan involve estimates of the net value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continuous revision as actual results are compared with past expectations and new estimates are made about the future.

	ERS MIPC	JRS MIPC	TRS MIPC
Date of latest actuarial valuation	June 30, 2013	June 30, 2013	June 30, 2013
Actuarial-cost method	Projected unit credit cost method with straight proration based on service to decrement	Projected unit credit cost method with straight proration based on service to decrement	Entry age normal
Amortization method	30 years closed, level dollar	30 years closed, level percentage of payroll	30 years closed, level percentage of payroll
Discount rate	3.25%	3.25%	3.25%
Projected payroll growth	N/A	3	N/A
Projected salary increases	N/A	N/A	3.5% general wage inflation plus a service based merit increase
Inflation	N/A	N/A	2.5%
Remaining amortization period	24 years	13 years	24 years
Amortization approach	Closed	Closed	Closed

The ERS MIPC, JRS MIPC, and TRS MIPC statutory contributions as a percentage of the required contribution for the current year and each of the two preceding years are as follows:

	ERS MIPC	JRS MIPC	TRS MIPC
Year ended June 30, 2013	59.2%	45.3%	75.0%
Year ended June 30, 2012	70.8	53.1	83.9
Year ended June 30, 2011	72.5	47.9	83.7

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projections of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The actuarial calculations reflect a long–term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short–term volatility in actuarial accrued liabilities and actuarial value of assets.

(e) ***Three Year Trend Information***

The three year trend information is as follows (dollars expressed in thousands):

		ERS MIPC	JRS MIPC	TRS MIPC
Annual OPEB cost:				
Year ended June 30, 2013	$	148,383	731	40,367
Year ended June 30, 2012		130,704	530	40,962
Year ended June 30, 2011		127,336	513	39,891
Percentage of annual OPEB cost contributed:				
Year ended June 30, 2013		61.9%	39.8%	84.8%
Year ended June 30, 2012		72.4	58.9	90.0
Year ended June 30, 2011		73.4	60.4	79.1
Net OPEB obligation:				
At June 30, 2013	$	223,317	1,387	53,668
At June 30, 2012		166,757	947	47,540
At June 30, 2011		130,741	729	43,448

(f) ***Funded Status***

Funded status of the postemployment healthcare benefit plans as of June 30, 2013, the most recent actuarial valuation date, is as follows (expressed in thousands):

		ERS MIPC	JRS MIPC	TRS MIPC	Total
Actuarial accrued liability (AAL)	$	1,482,879	6,705	792,875	2,282,459
Actuarial value of assets		—	—	—	—
Unfunded actuarial accrued liability	$	1,482,879	6,705	792,875	2,282,459
Funded ratio		—%	—%	—%	—%
Covered payroll	$	3,489,096	32,138	1,248,674	4,769,908
Unfunded actuarial accrued liability as a percentage of covered payroll		42.5%	20.9%	63.5%	47.9%

The schedule of funding progress presented as required supplementary information following the notes to the basic financial statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(19) Debt Service Deposit Agreements

On May 26, 2005 (but effective on July 1, 2005), the Commonwealth, PFC, and the GDB (together the Commonwealth) and Lehman Brothers Special Financing Inc. (Lehman) entered into Debt Service Deposit Agreements (DSD Agreements), the objective of which was for the Commonwealth to secure an upfront payment in exchange for granting Lehman the rights to earnings generated from eight of its debt service funds. On September 25, 2008, as a result of Lehman commencing a case in the United States Bankruptcy Court for the Southern District of New York under Chapter 11 of the United States Code, Lehman selected Hexagon Securities LLC to act as the Qualified Dealer under the DSD Agreements and delivered Qualified Securities as permitted under the DSD Agreement. Seven of the funds are associated with the Commonwealth's PFC bonds, presented in the accompanying basic financial statements as Commonwealth appropriation bonds, and one fund is associated with the Commonwealth's general obligation bonds. The upfront payment, which amounted to $82.7 million, was received on May 26, 2005 and equaled the present value of the projected earnings income adjusted for credit timing risks as well as an appropriate amount of compensation for Lehman.

With the upfront payment made as explained above, the Commonwealth delivered to Lehman the required and scheduled debt service deposits and Lehman delivered qualified government debentures, which will mature before the next debt service payment date at an amount approximating such next debt service payment. Lehman will attempt to earn sufficient funds on the debt service deposit amounts, less its cost for the qualified government debentures, to make back the $82.7 million over time. At the same time, the Commonwealth will be managing its borrowings and investments by increasing the predictability of its cash flows from earnings on its investments and not for purpose of speculation. The Commonwealth acknowledges that, in exchange for the upfront payment received, it is foregoing its right to receive investment earnings on the deposit amounts referred to above in the future and that, by accepting the upfront payment, the Commonwealth has minimized the risks resulting from fluctuations in interest rates during the term of the DSD Agreements but also has foregone the possibility of receiving greater returns on such amounts from such fluctuations.

Under the DSD Agreements, the Commonwealth will be exposed to the payment to Lehman of a Termination Amount, as defined in the agreement, principally upon the occurrence of redemption or a defeasance of the related bonds on or prior to the last scheduled deposit date. The amount of the Termination Amount will vary depending on various market conditions, as defined in the DSD Agreements. Under certain market conditions, the Termination Amount owed to Lehman by the Commonwealth may exceed the amount of the original upfront payment received.

The $82.7 million upfront payment received by the Commonwealth was recognized as other revenue for budgetary purposes in 2005; however, under US GAAP, such upfront payment was deferred and is being recognized proportionally over the future periods the Commonwealth would have otherwise earned such interest earnings. The unamortized balance amounted to approximately $25.6 million and is a component of deferred revenue at June 30, 2013. During fiscal year 2013, approximately $3.8 million was amortized into other revenue in the accompanying statement of activities, and $1.6 million was paid by the Commonwealth as a partial termination of one of the agreements.

(20) Derivative Instruments

The fair values and notional amounts of derivative instruments outstanding at June 30, 2013, classified by type, and the changes in fair value of such derivative instruments for the fiscal year then ended as reported in the 2013 basic financial statements are as follows (in thousands):

		Changes in fair value from June 30, 2013 (1)		Fair value at June 30, 2013 (2)			
Item		**Classification**	**Amount**	**Classification**	**Amount**		**Notional**
Governmental activities:							
Cash flow hedges:							
1 Pay-fixed interest rate swap	(4)	Deferred outflow	$ 12,835	Liability	$ (36,393)	(5)	$ 233,615
2 Pay-fixed interest rate swap		Deferred outflow	(94)	Liability	(2,591)		32,815
3 Pay-fixed interest rate swap		Deferred outflow	(156)	Liability	(2,498)		32,625
4 Pay-fixed interest rate swap		Deferred outflow	(148)	Liability	(2,250)		31,280
5 Pay-fixed interest rate swap		Deferred outflow	(115)	Liability	(1,994)		30,005
6 Pay-fixed interest rate swap	(4)	Deferred outflow	1,399	Liability	(2,702)	(5)	14,925
7 Pay-fixed interest rate swap	(4)	Deferred outflow	1,398	Liability	(2,700)	(5)	14,915
8 Pay-fixed interest rate swap	(3)	Deferred outflow	33,444	Liability	(53,176)		136,000
Investment derivative instruments:							
9 Pay-fixed interest rate swap	(4)	Investment revenue	8,377	Liability	(18,660)	(5)	114,071
10 Pay-fixed interest rate swap	(4)	Investment revenue	6,121	Liability	(14,270)	(5)	83,314
11 Basis Swap		Investment revenue	2,597	Liability	(15,727)	(5)	849,185
12 Basis Swap		Investment revenue	(1,861)	Liability	(8,315)	(5)	424,592

(1) Positive (negative) values represent a decrease (an increase) in the liability's fair value.
(2) Negative values indicate that the Commonwealth is in a payable position. The fair value excludes the accrued interest receivable or payable at year-end.
(3) Derivative instrument corresponds to COFINA.
(4) Insured swap.
(5) Amortizing swap. The notional amount of the swap matches the principal amount of the associated debt. The swap agreement contains scheduled reductions to the notional amount that matches scheduled reductions in the associated debt outstanding principal balanc

The fair values of the pay-fixed interest rate swaps and the basis swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swaps.

Accrued interest payable on swaps are presented separately from the fair values of the swaps in the Commonwealth's government-wide statement of net position and in the governmental funds – balance sheet and amounted to $9.8 million at June 30, 2013.

The following table shows the derivative instruments position by counterparty and the counterparty credit ratings at June 30, 2013 (in thousands):

Item	Counterparty/swap	Total Notional amount	Total Fair value	Counterparty Credit Rating Moodys/S&P
8 and 11	Goldman Sachs Bank	$ 985,185	(68,903)	**A2/A**
2 to 7	Morgan Stanley Capital Services Inc.	581,158	(23,050)	**Baa1/A-**
1	Bank of New York Mellon	233,615	(36,393)	**Aa1/AA-**
9	DEPFA BANK plc	114,071	(18,660)	**Baa3/BBB**
10	Merrill Lynch Capital Services, Inc.	83,314	(14,270)	**Baa2/A-**
	Total	$ 1,997,343	(161,276)	

Hedging Derivative Instruments

The following table displays the objective and terms of the Commonwealth's hedging derivative instruments outstanding at June 30, 2013, along with the credit rating of the associated counterparty (amounts in thousands):

Item	Type	Objective	Notional amount	Effective date	Maturity date	Terms Pays	Terms Receives	Counterparty credit rating Moody's/S&P
1	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2003 Series C-5-1 and C-5-2 bonds	$ 233,615	7/1/2008	7/1/2021	3.7658%	67% 1M LIBOR	Aa1/AA-
2	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2006 Series A bonds	32,815	8/10/2006	7/1/2021	4.2000	CPI+0.90%	Baa1/A-
3	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2006 Series A bonds	32,625	8/10/2006	7/1/2020	4.3200	CPI+1.02%	Baa1/A-
4	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2006 Series A bonds	31,280	8/10/2006	7/1/2019	4.2900	CPI+1.00%	Baa1/A-
5	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2006 Series A bonds	30,005	8/10/2006	7/1/2018	4.2600	CPI+0.98%	Baa1/A-
6	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2007 Series A3 bonds	14,925	10/16/2007	7/1/2029	3.5180	66% 1M LIBOR	Baa1/A-
7	Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2007 Series A2 bonds	14,915	10/16/2007	7/1/2029	3.5180	66% 1M LIBOR	Baa1/A-
8	Pay-fixed interest rate swap	Hedge of changes in cash flows on the COFINA 2007 Series A bonds	136,000	7/31/2007	8/1/2057	4.9200	67% 3M LIBOR +0.93%	A2/A-

LIBOR: London Interbank Offered Rate Index
CPI: Consumer Price Index

For derivative instruments No. 2, 3, 4, and 5, the floating interest rate, CPI plus a spread (the rate to receive), is capped to the maximum rate permitted by Commonwealth law (12% as of June 30, 2013). This cap is equal to the cap in the hedged bond. Other swaps do not have significant embedded options.

Investment Derivative Instruments – The following table displays the terms of the Commonwealth's investment derivative instruments outstanding at June 30, 2013, along with the credit rating of the associated counterparty (amounts in thousands):

Item	Type	Notional amount	Effective date	Maturity date	Terms pays	Receives	Counterparty credit rating Moody's/S&P
9	Pay-fixed interest rate swap	$ 114,071	7/1/2008	7/1/2024	3.6815%	67% 1M LIBOR	Baa3/BBB
10	Pay-fixed interest rate swap	83,314	7/1/2008	7/1/2024	3.6815	67% 1M LIBOR	Baa2/A-
11	Basis Swap	849,185	7/1/2006	7/1/2035	SIFMA	67% 3M LIBOR + 0.4409	A2/A
12	Basis Swap	424,592	7/5/2007	7/1/2035	SIFMA	67% 3M LIBOR + 0.4409	Baa1/A-

None of the investment derivative instruments has significant embedded options.

The Commonwealth entered into the basis swaps (derivative instruments No. 11 and 12) to economically hedge the portion of the fair value of the underlying liabilities attributable to the relative value/basis risk between tax-exempt and taxable rates, which can be expressed as a ratio. At June 30, 2013, management of the Commonwealth concluded that these basis swaps were not considered as effective hedging instruments under GASB Statement No. 53.

On October 1, 2012, the Commonwealth (the "Transferor") partially terminated derivative instrument No. 11, when it entered into a Novation Agreement with a notional amount of $424,592,500 (the "Novated Amount") with Morgan Stanley Capital Services LLC (the "Transferee") and Goldman Sachs Bank USA (the "Remaining Party"), without receiving or paying any consideration. As a result of this Novation Agreement, the Commonwealth shall have no obligations of any kind to the Remaining Party with respect to the Novated Amount of the Old Transaction or to the Remaining Party or the Transferee with respect to the New Transaction. Thus, the notional amount of derivative instrument No. 11 was reduced to $849,185,000.

Risks on Derivative Instruments:

Credit or Counterparty Risk — The Commonwealth is exposed to credit risk on derivative instruments that are in asset positions. When the fair value of a derivative contract is positive, the counterparty owes the Commonwealth, which creates a credit risk for the Commonwealth. If the counterparty were to default under its agreement when the counterparty owes a termination payment to the Commonwealth, the Commonwealth may have to pay another entity to assume the position of the defaulting counterparty. When the fair value of the derivative contract is negative, the Commonwealth owes to the counterparty and, therefore, does not pose credit risk to the Commonwealth.

The Commonwealth has sought to limit credit risk by contracting only with highly rated entities or requiring guarantees of the counterparty's obligations under the swap agreements. In addition, to minimize its exposure to loss related to credit risk, it is the Commonwealth's policy to require counterparty collateral posting provisions on its derivative agreements. These terms require collateralization of the fair value of the derivative instruments in asset position (net of the effect of applicable netting arrangements) in excess of certain agreed upon thresholds which range from $20.0 million to zero (full collateralization) should the credit rating of the counterparty falls below a specified rating. Collateral posted is to be in the form of cash, U.S. Treasury securities, or specified agency securities. The Commonwealth has never failed to access collateral when required.

It is the Commonwealth's policy to enter into netting arrangements whenever it has entered into more than one derivative instrument transaction with a counterparty. Under the terms of these arrangements, should

one party become insolvent or otherwise default on its obligations, closeout netting provisions permit the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the non-defaulting party.

At June 30, 2013, none of the derivative instruments was in an asset position. Thus, the Commonwealth did not have aggregate counterparty credit exposure or netting arrangements as of that date.

Interest Rate Risk — The Commonwealth is exposed to interest rate risk on its swaps. On its pay-fixed, receive-variable interest rate swaps, as LIBOR or the Consumer Price Index (CPI) decreases, the Commonwealth's net payment on the swap increases. Additionally, as long-term LIBOR and CPI rates decrease, the fair values of the derivative instruments in liability positions increase. On its basis swaps, as LIBOR decreases and/or SIFMA trades as a higher percentage of LIBOR, the Commonwealth's net payment on the basis swap increases. Additionally, as long-term LIBOR rates increase and/or long-term SIFMA/LIBOR ratios increase, the fair values of the basis swaps in liability positions decrease.

Basis Risk — The Commonwealth is exposed to basis risk on some of its pay-fixed interest rate swaps where the variable-rate payments received by the Commonwealth on the derivative and the rate paid on the hedged variable-rate debt are based on different reference rates or indexes.

Termination Risk — The Commonwealth or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. The Commonwealth is at risk that the counterparty will terminate a swap at a time when the Commonwealth owes a termination payment to the counterparty. Substantially all derivative instruments were terminated subsequent to year-end (see note 22).

Rollover Risk — The Commonwealth is exposed to rollover risk on hedging derivative instruments that mature prior to the maturity of the hedged debt, thus re-exposing the Commonwealth to the risk being hedged. None of the Commonwealth's derivative instruments matures prior to the maturity of the hedged debt.

Collateral Posting Requirements and Contingencies — All of the Commonwealth's derivative instruments, except for the Commonwealth's derivative instruments that are insured by Assured Guaranty Municipal Corp. (derivative instruments No. 1, 6 and 7) and the COFINA's derivative instrument No. 8, include provisions that require the Commonwealth to post collateral in excess of certain agreed upon thresholds (that range from \$30.0 million to \$50.0 million) when its credit rating falls below Baa1 (Moody's Investor Service) or BBB+ (Standard & Poor's). If the Commonwealth's credit rating falls below Baa3 (Moody's Investor Service) or BBB- (Standard & Poor's), it is required to post collateral of 100% of their payable positions. The collateral posted is to be in the form of cash, U.S. Treasury securities, or specified agency securities for derivative instruments in liability positions, net of the effect of applicable netting arrangements and thresholds. If the Commonwealth does not post collateral, the derivative instrument may be terminated by the counterparty.

At June 30, 2013, the aggregate fair value of the Commonwealth's derivative instruments with these collateral posting provisions was a liability position of \$69.1 million. The Commonwealth's credit rating as of June 30, 2013 was Baa3 (Moody's Investor Service) and BBB- (Standard & Poor's). Since the aggregate fair value of these derivative instruments was below the established threshold with each of the counterparties, the Commonwealth was not required to post collateral as of June 30, 2013.

At June 30, 2013, no collateral posting requirement applied to the COFINA's derivative instrument.

As disclosed in note 22, part of the $3.5 billion bond issuance of the Commonwealth's General Obligation Bonds of 2014, Series A were used by the Commonwealth to terminate seven hedging derivative instruments with notional amount of approximately $390.2 million and three investment derivative instruments with the notional amount of approximately $622.0 million on March 17, 2014. The Commonwealth paid approximately $90.2 million to terminate these swaps. After this bond issuance transaction, the remaining outstanding derivative instruments are those of Goldman Sachs Bank, which includes: the outstanding derivative instrument No. 11 (a basis swap) with notional amount of approximately $849.2 million, which has separate undeclared additional termination events against each other and for which the Commonwealth executed a standstill agreement with its counterparty in March 2014, and the COFINA's hedging derivative instrument No. 8 with notional amount of $136.0 million.

(21) Fund Balance (Deficit)

Below is the detail included in the fund balance (deficit) classifications for the governmental funds at June 30, 2013 (expressed in thousands):

	General	Debt service	COFINA Special revenue	COFINA Debt service	Other governmental	Total governmental
Nonspendable:						
Endowment	$ 5,000	—	—	—	225,100	230,100
Spendable:						
Restricted for:						
General government	—	—	—	—	508	508
Public housing and welfare	—	—	—	—	93,459	93,459
Capital projects	40,076	—	—	—	229,787	269,863
Debt service	317,420	—	—	579,610	214,991	1,112,021
Subtotal	357,496	—	—	579,610	538,745	1,475,851
Committed to:						
Public housing and welfare	—	—	—	—	29,042	29,042
Health	171	—	—	—	—	171
Debt service	—	2,154	—	—	—	2,154
Subtotal	171	2,154	—	—	29,042	31,367
Assigned to:						
General government	573	—	48,852	—	—	49,425
Public housing and welfare	8,047	—	—	—	7,158	15,205
Capital projects	6,788	—	—	—	98,241	105,029
Debt service	—	154,540	—	—	1,592	156,132
Subtotal	15,408	154,540	48,852	—	106,991	325,791
Unassigned	(2,389,101)	—	—	—	(65,650)	(2,454,751)
Total fund balance (deficit)	$ (2,011,026)	156,694	48,852	579,610	834,228	(391,642)

(22) Subsequent Events

Subsequent events were evaluated through June 30, 2014, the date the basic financial statements of the Commonwealth were available to be issued, to determine if any such events should either be recognized or disclosed in the 2013 basic financial statements. The subsequent events disclosed are principally those related to debt activities, including credit rating downgrade events, and other revenue and/or budget related legislation which management believes are of sufficient public interest for disclosure.

Primary Government

Tax Revenue Anticipation Notes and Other Notes and Bonds Issued after Year End

On July 1, 2013, the Commonwealth issued Tax and Revenue Anticipation Note Series A (2014) for $300,000,000 (the 2014 TRANs-A) to the GDB for the purpose of providing funds to pay the General Fund appropriations made for fiscal year 2014 in anticipation of the receipt of taxes and revenues required to be deposited in the General Fund and estimated in the budget of the Commonwealth to be realized in cash during fiscal year 2014. The 2014 TRANs-A bears interest at a rate equal to the greater of (i) the rate of interest determined from time to time by the GDB at its prime rate plus 150 basis points or (ii) 6.0%, and shall mature and be due and payable on July 30, 2014. The good faith, credit and taxing power of the Commonwealth are not pledged to the payment of the principal of and interest on this 2014 TRANs-A.

On July 2, 2013, the Commonwealth issued Public Improvement Refinancing Note of 2013, Series B for $319,645,474 (the 2013 PIRN-B) to the GDB for the purpose of providing funds to make during fiscal year 2014 the monthly principal deposits in respect and thereby refinance the principal component of certain outstanding public improvement and public improvement refunding bond issues of the Commonwealth. The 2013 PIRN-B bears interest at a rate of interest per annum equal to the prime rate as determined and announced by the GDB from time to time plus 150 basis points. No such rate of interest per annum shall be in excess of 12% or be less than 6% per annum. The 2013 PIRN-B shall mature and be due and payable on June 30, 2043. The good faith, credit and taxing power of the Commonwealth are pledged to the payment of the principal of and interest on the 2013 PIRN-B.

On July 9, 2013, PRIFA entered into a Bond Purchase Agreement of its Revenue Bonds, Series 2011 C-1 bonds, for approximately $96.8 million. The agreement provides for the establishment of a new term rate period that ended on November 14, 2013, with a new term rate not to exceed 3.25%.

On July 16, 2013, the Commonwealth issued Public Improvement Refinancing Note of 2013, Series A for $255,755,568 (the 2013 PIRN-A) to the GDB for the purpose of providing funds to make during fiscal year 2014 the monthly interest deposits in respect and thereby refinance the interest component of certain outstanding public improvement and public improvement refunding bond issues of the Commonwealth. The 2013 PIRN-A bears interest at a rate of interest per annum equal to the prime rate as determined and announced by the GDB from time to time plus 150 basis points. No such rate of interest per annum shall be in excess of 12% or be less than 6% per annum. The 2013 PIRN-A shall mature and be due and payable on June 30, 2043. The good faith, credit and taxing power of the Commonwealth are pledged to the payment of the principal of and interest on the 2013 PIRN-A.

On July 16, 2013, the Commonwealth issued Tax and Revenue Anticipation Note Series B (2014) for $100,000,000 (the 2014 TRANs-B) to Oriental Bank for the purpose of providing resources which are

necessary to meet the appropriations in the fiscal year 2014 annual budget in anticipation of the receipt of taxes and revenues. The 2014 TRANs-B bears interest at a rate of Base LIBOR plus the applicable margin, as defined, and shall mature and be due and payable on June 30, 2014. The good faith, credit and taxing power of the Commonwealth are not pledged to the payment of the principal of and interest on this 2014 TRANs-B.

On July 23, 2013, the Commonwealth issued Tax and Revenue Anticipation Note Series C (2014) for $100,000,000 (the 2014 TRANs-C) to Banco Popular de Puerto Rico for the purpose of providing resources which are necessary to meet the appropriations in the fiscal year 2014 annual budget in anticipation of the receipt of taxes and revenues. The 2014 TRANs-C bears interest at a rate of Base LIBOR plus the applicable margin, as defined, and shall mature and be due and payable on June 30, 2014. The good faith, credit and taxing power of the Commonwealth are not pledged to the payment of the principal of and interest on this 2014 TRANs-C.

On July 23, 2013, the Commonwealth sold, in a private placement, $104,700,000 of Public Improvement Refinancing Notes, Series 2013 A (the Notes). The Notes had a maturity date of December 1, 2013 and bear interest at a per annum interest rate equal to the sum of LIBOR and 2.50%.

On August 12, 2013, the Commonwealth sold, in a private placement, $210,300,000 of Public Improvement Refinancing Notes, Series 2013 B (the Refinancing Notes) and $85,000,000 Commonwealth's Bond Anticipation Notes, Series 2013 A. These Notes will have a maturity date of December 1, 2013 and bear interest at a per annum interest rate equal to the sum of LIBOR and 2.5%.

On August 13, 2013, the Commonwealth issued Tax and Revenue Anticipation Note Series D (2014) for $200,000,000 (the 2014 TRANs-D) to Banco Santander Puerto Rico for the purpose of providing resources which are necessary to meet the appropriations in the fiscal year 2014 annual budget in anticipation of the receipt of taxes and revenues. The 2014 TRANs-D bears interest at a rate of Base LIBOR plus the applicable margin, as defined, and shall mature and be due and payable on June 30, 2014. The good faith, credit and taxing power of the Commonwealth are not pledged to the payment of the principal of and interest on this 2014 TRANs-D.

On August 22, 2013, the Commonwealth issued Tax and Revenue Anticipation Note Series E (2014) for $200,000,000 (the 2014 TRANs-E) to JP Morgan Chase Bank, National Association for the purpose of providing resources which are necessary to meet the appropriations in the fiscal year 2014 annual budget in anticipation of the receipt of taxes and revenues. The 2014 TRANs-E bears interest at a fixed interest rate equal to 3.25% multiplied by a margin rate factor, as defined, and shall mature and be due and payable on June 30, 2014. The good faith, credit and taxing power of the Commonwealth are not pledged to the payment of the principal of and interest on this 2014 TRANs-E.

On September 12, 2013, the Commonwealth issued Tax and Revenue Anticipation Note Series F (2014) for $100,000,000 (the 2014 TRANs-F) to Scotiabank of Puerto Rico for the purpose of providing funds to pay the General Fund appropriations made for fiscal year 2014 in anticipation of the receipt of taxes and revenues that would otherwise be required to be deposited in the General Fund and estimated in the budget of the Commonwealth to be realized in cash during fiscal year 2014. The 2014 TRANs-F bears interest at a fixed rate equal to 3% per annum, and shall be due and payable on June 30, 2014. Upon the failure of the Commonwealth to maintain a rating on its general obligation debt of at least investment grade by each of

the rating agencies, the 2014 TRANs-F shall bear interest at a fixed interest rate equal to 6% per annum. The good faith, credit, and taxing power of the Commonwealth are not pledged to the payment of the principal of and interest on the 2014 TRANs-F.

On March 11, 2014, the Commonwealth issued $3.5 billion tax-exempt, 8% fixed coupon rate, General Obligation Bonds Series 2014 A with an effective yield of 8.727%, maturing in 2035. From the net proceeds of approximately $3.2 billion, $900 million were used to refinance short-term obligations and swap termination payments, and $400 million were used to capitalize interest. The remaining net proceeds will be used to refinance certain obligations of the Commonwealth and its instrumentalities with the GDB, resulting in a liquidity infusion to the GDB of approximately $1.9 billion. Some of the obligations that will be repaid include the general obligation VRDOs referred to above, which were carrying acceleration clauses on its covenants.

On November 14, 2013, PRMeSA and the Municipality of San Juan (MSJ) signed an agreement to settle the accounts receivable from the Hospital of MSJ related to medical services rendered by PRMeSA to the MSJ covering impatient and outpatient services, laboratory, pharmacy, general services and other ancillary services billed to the MSJ. The settlement was for the amount of $11.5 million and covers the period from July 1, 2002 to June 30, 2012. The agreement is to be paid in five installments beginning in fiscal year 2014 for $8 million, $800, thousands in 2016, $850, thousands in 2017, $900 thousands in 2018 and the last payment is due August 2019 for $950 thousands, bearing no interest.

Significant Legislation after Year End

On October 9, 2013, the Governor signed into law Act No. 116, which increased from 2.75% to 3.50% the portion of the Commonwealth sales and use tax transferred to COFINA and expanded the permitted uses of COFINA bond proceeds to, among others, refinance Bond Anticipation Notes ("BANs") and other lines of credit used to help finance the Commonwealth's deficit for fiscal years 2013 and 2014.

On January 24, 2014, Act No. 18 was enacted, reducing, effective February 1, 2014, the municipal sales and use tax from 1.5% to 1.0% and at the same time increasing the Commonwealth's sales and use tax from 5.5% to 6.0%. By such legislation, the minimum amount of the Commonwealth's sales and use tax available to COFINA was increased. Simultaneously, Act No 18 created the Municipal Administration Fund (MAF), which is intended to provide the municipalities with the economic benefit of the municipal sales and use tax collections lost as a result of the reduction from 1.5% to 1.0% in the municipal sales and use tax rate that occurred concurrently with the increase from 5.5% to 6.0% in the Commonwealth's sales and use tax rate. The MAF will be funded from the first moneys due to the Secretary of the Treasury from the Commonwealth's sales and use tax once all required deposits have been made to COFINA up to an amount equal to the equivalent of 8.33% of all collections from the Commonwealth's sales and use tax to the Transfer Date, and thereafter, on a pro-rata basis with the transfer of sales and use tax collections to the General Fund. Total deposits to the MAF in any fiscal year will equal the amount attributable to 0.5% of the Commonwealth sales and use tax for the current fiscal year. Amounts on deposit in the MAF will be for the benefit of the municipalities, and may be used to continue funding the Municipal Redemption Fund, the Municipal Development Fund and the Municipal Improvements Fund, which were previously funded from the collections attributable to 0.5% of the municipal sales and use tax. In addition, the GDB is required to make certain advances to the municipalities during the fiscal year in order to address any monthly cash shortfall caused by timing delays as a result of the lag in availability of operational funds to

the municipalities caused by interposing the COFIM and COFINA funding requirements prior to making such funds available to the municipalities. Such advances by the GDB would be payable from the COFIM Surplus (defined in the following paragraph below) and the amount to be received by the MAF. Finally, to the extent the amount of Commonwealth sales and use tax collections available for deposit into the MAF during any fiscal year is less than the amount attributable to 0.5% of the Commonwealth sales and use tax for such fiscal year, the Commonwealth's General Fund is required to cover any such shortfall.

Act No. 19 also created the Municipal Financing Corporation (COFIM, its Spanish acronym). COFIM is authorized to issue bonds and use other financing mechanisms to pay or refinance, directly or indirectly, all or a portion of the municipalities' debt obligations payable from the municipal sales and use tax. COFIM will receive, on an annual basis, the first collections attributable to the 1.0% municipal sales and use tax until the greater of 0.3% of the municipal sales and use tax or the "base amount" established in the statute is deposited annually in COFIM. The base amount for fiscal year 2015 is $65.5 million and increases by 1.5% every fiscal year. Amounts remaining after all transfers have been made to COFIM, and any amounts transferred to COFIM not necessary to pay COFIM's annual debt service, will be made available to the municipalities for operating expenses (the "COFIM Surplus"). COFIM expects to issue bonds principally in order to refinance municipal sales and use tax-backed loans granted to municipalities by the GDB.

As part of the American Recovery and Reinvestment Act of 2009 (ARRA), in 2009 the United States Congress adopted the Making Work Pay Credit (MWPC) to provide refundable tax credits of up to $400 (or $800 if joint filers) to working individuals for taxable years 2009 and 2010. In order to provide the tax credit to residents of Puerto Rico, the United States Treasury paid the Puerto Rico Department of the Treasury approximately $1.2 billion. The Commonwealth was to return the balance of ARRA funds not spent as of December 31, 2013. As of December 31, 2013, the balance owed to the United States Treasury was $349 million, including $300 million that was not spent on MWPC and $49 million in overpayments made to certain taxpayers. The Commonwealth has reached an agreement with the United States Treasury to return the fund balance of $300 million in monthly installments of $25 million beginning on February 3, 2014 until the balance has been repaid. Thereafter, the Commonwealth will make two additional monthly payments of $25 million and $24 million, respectively, to cover the MWPC related overpayments.

Bonds Credit Rating Downgrade

On February 4, 2014, Standard & Poor's Ratings Services (S&P) lowered its rating on the general obligation bonds of the Commonwealth from "BBB-" to "BB+," which is a non-investment grade rating. S&P kept all these ratings on "CreditWatch" with negative implications, and noted that further downgrades were possible. On February 7, 2014, Moody's Investors Service ("Moody's") lowered its rating on the general obligation bonds of the Commonwealth two notches, from "Baa3" to "Ba2", and maintained a "negative" outlook on all these bonds. Moody's also downgraded the COFINA's senior lien bonds to Baa1 from A2 and its junior-lien bonds to Baa2 from A3, with a negative outlook. On February 10, 2014, Fitch Ratings ("Fitch") lowered its rating on the general obligation bonds of the Commonwealth by two notches from "BBB-" to "BB", and removed the downgraded bonds from Rating Watch negative but maintained its Rating Outlook negative on these bonds. During these same dates, S&P, Moody's and Fitch, also downgraded PBA's bonds to a rating of BB or non-investment grade status, while Moody's lowered the credit ratings of PRIFA's Special Tax Revenue Bonds from Baa3 to Ba2. Since PBA's main activity consists of the rental of buildings to agencies and public corporations of the Commonwealth and PRIFA's principal source of pledged revenues for its bonds' debt service is the federal excise taxes on distilled

spirits export, its financial stability depends directly on the financial well-being of the Commonwealth and the continuity of the referenced federal excise taxes. Therefore the effect, if any, of any decision made by the Commonwealth as the result of the downgrade on PBA's and PRIFA's financial position and result of operations cannot be determined at present time.

As a result of the previously described credit rating downgrades, certain obligations of the Commonwealth and its instrumentalities could become due in the near future if the lenders or counterparties exercise acceleration or termination rights. The most significant of such maturing, accelerable or terminable obligations are listed below:

(i) Tax and revenue anticipation notes (the 2014 TRANS) issued by the Commonwealth in an aggregate principal amount of $1.1 billion (most of them described further below and issued after June 30, 2013) which are payable from income taxes collected during fiscal year 2014 and mature on June 2014. Three equal principal installments are due on the 2014 TRANS on each of April, May and June of 2014.

(ii) General obligation bonds of the Commonwealth that are variable rate demand obligations (VRDOs) in an aggregate principal amount of approximately $188.7 million supported by a letter of credit that expired on June 21, 2014, but that could be subject to acceleration as a result of the downgrade. The bonds are also secured by a bond insurance policy; the letter of credit provider may cancel the bond insurance policy and then direct a mandatory tender of the bonds and require the immediate repayment of the amounts disbursed under the letter of credit. The outstanding balance of these VRDOs was subsequently retained with the proceeds of the $3.5 billion general obligation issued by the Commonwealth in March 11, 2014.

(iii) General obligation VRDOs of the Commonwealth in an aggregate principal amount of approximately $14.9 million supported by a liquidity facility that expired on May 1, 2014 and, to the extent that the facility expires and is not replaced, the bonds would be payable over a five (5) year period. The outstanding balance of these VRDOs was subsequently retained with the proceeds of the $3.5 billion general obligation issued by the Commonwealth in March 11, 2014.

(iv) General obligation VRDOs of the Commonwealth in an aggregate principal amount of approximately $242.6 million that have been directly purchased by banking institutions, and are subject to optional tender for purchase by the banking institutions on thirty (30) days' notice as a result of the downgrade. The bonds are subject to mandatory tender at the expiration of the current interest rate periods on May 1, 2014 ($44,905,000) and June 1, 2014 ($197,655,000). The outstanding balance of these VRDOs was subsequently retained with the proceeds of the $3.5 billion general obligation issued by the Commonwealth in March 11, 2014.

(v) General obligation VRDOs of the Commonwealth in an aggregate principal amount of approximately $14.9 million which have been directly purchased by banking institutions, and are subject to optional tender for purchase on seven (7) days' notice. If not accelerated, the bonds are subject to mandatory tender for purchase in accordance with their terms on June 1, 2014. The outstanding balance of these VRDOs was subsequently retained with the proceeds of the $3.5 billion general obligation issued by the Commonwealth in March 11, 2014.

In addition, the interest rates on certain bonds and notes of the Commonwealth will increase as a result of the credit downgrades, to rates ranging from 10% to 12.0%. The Commonwealth refinanced the outstanding general obligation VRDOs ($469 million) and the COFINA bond anticipation notes ($333 million) with the proceeds of the $3.5 billion general obligation bonds issued on March 11, 2014, as described further below. In addition to the possible acceleration of debt instruments described above, the credit rating downgrades have also triggered "additional termination events" under interest rate exchange and other derivative agreements relating to outstanding bonds and notes of the Commonwealth and certain of its public corporations, making them now subject to termination at the option of the applicable counterparty. The swap and other derivative agreements currently subject to termination have a negative mark-to-market valuation of $333.5 million as of February 14, 2014. The Commonwealth or its relevant public corporations currently have $142 million of collateral posted to the counterparties under these swap and derivative agreements. If any such agreements were terminated, they would likely be terminated at their then current mark-to-market valuations (net of collateral posted), plus cost, which could differ substantially from the mark-to-market valuations. The Commonwealth and the relevant public corporation would also be subject to interest rate risk on the underlying variable rate bonds.

As of the date of these basic financial statements, none of the counterparties has exercised any tender, acceleration, put or termination right, and the Commonwealth, the GDB and the affected public corporations are currently engaged in discussions with swap counterparties, bondholders and credit and liquidity facility providers in order to obtain waivers or modifications of certain of these requirements to mitigate the adverse impacts of the downgrades. There can be no assurance at this time, however, as to the final outcome of such discussions or the nature or extent of the relief provided, if any, with respect to the acceleration, tender, put or termination rights described above. Such negotiations may be unsuccessful or, even if they are successful, future events may trigger other acceleration, termination, tender or put rights. While the Commonwealth and the GDB do not currently expect, absent further adverse developments, that the Commonwealth and the public corporations will be required to fund the total amount of these obligations in the near term, there can be no assurance that the Commonwealth and the public corporations will not be required to fully fund such obligations and, if required to do so, that sufficient funds will be available to fund them.

Pension Trust Funds

(a) ***JRS* –** On December 24, 2013, the Governor of Puerto Rico signed into law Act No.162 of 2013 (Act No.162), in order to implement a comprehensive reform plan to address the JRS's UAAL. Act No. 162 included various changes applicable to all participants and retirees; however, the constitutionality of Act 162 was challenged, and on February 21, 2014, the Puerto Rico Supreme Court ruled that the reform could only be applied as follows:

1. Active participants and retirees hired or retired prior to December 24, 2013 maintain the existing benefits.
2. Participants hired between December 24, 2014 and June 30, 2014 will accrue a maximum pension of 60% of salary, and will contribute 10% of salary, among other changes.
3. Participants hired on or after July 1, 2014 will participate in a new Hybrid Plan.
4. The ability to retire with existing benefits for participants already in the JRS until July 1,

2015 was declared unconstitutional.

Act No.162 amends the provisions of the different benefit structures under the JRS for new participants (based on the Supreme Court ruling described above) through several measures.

JRS's management is in the process of estimating the effects of Act No.162 on the JRS's UAAL. However, as result of the Supreme Court ruling, its effect will be significantly less than had been estimated when Act No.162 was enacted.

(b) ***TRS*** – On December 24, 2013, the Governor signed into law Act No.160-2013 (Act No.160) as new legislation for the TRS. The goal underlying Act No.160 is for the TRS to have the ability to make benefit payments when due. The restructuring of future liabilities of the TRS, coupled with an increase in inflows into the TRS, is projected to allow the TRS to pay all pension benefits as they become due. The reform is designed to protect accrued pension benefits.

Act No.160 contemplates a series of reforms, which play a critical role over time in supporting the ability of the System to pay benefits including, among others: (i) freezing the retirement benefits that participants will have accrued under the current defined benefit system as of July 31, 2014; (ii) replacing this defined benefit going forward with a defined contribution plan; (iii) increasing the retirement age of participants; (iv) increasing employee contributions; and (v) eliminating and reducing certain benefits granted to future and existing retirees under special laws. It also provides for certain additional employer contributions by the Commonwealth.

The constitutionality of Act No.160 was challenged in several lawsuits brought by participants of the TRS. The Puerto Rico Supreme Court (the Supreme Court) appointed a Special Master to conduct an evidentiary hearing on the facts and suspended the effectiveness of Act No.160 pending final Resolution of the constitutional challenge. On February 7, 2014, the Special Master issued its report and on February 11, 2014, the Supreme Court issued an order granting parties until March 3, 2014 to file briefs on the constitutionality of Act No.160.

On April 11, 2014, the Supreme Court declared certain sections of Act No.160 unconstitutional while maintaining the constitutionality of the following: (i) all changes made to the benefit structure apply to future participants that are hired after July 31, 2014; (ii) elimination of special laws benefits for participants that retire on or after August 1, 2014; and (iii) reduction of special laws benefits to current retirees as of July 31, 2014.

The Supreme Court's decision remains under the Commonwealth and Management's evaluation and analysis in order to determine the appropriate course of action.

Component Units

On June 28, 2014, the Commonwealth enacted the Debt Enforcement Act (see note 2). This Act is intended to fill the void that currently exists with respect to an orderly legal process governing the enforcement and restructuring of the debts and other obligations of a public corporation, due to the general inapplicability of Chapters 9 and 11 of the United States Bankruptcy Code to public corporations that are governmental instrumentalities of the Commonwealth. The purpose of the Act is to create a legal framework that: (1) allows public corporations to adjust their debts in a manner that protects the interests of all affected

creditors; (2) provides procedures for the orderly enforcement and restructuring of a public corporation's debt in a manner that is consistent with the United States and Commonwealth Constitution; and, (3) maximizes the return to the public corporation's stakeholders.

The Act applies solely to public corporations. The following public corporations, however, are excluded from its application: the Children's Trust; the Employees Retirement System of the Government of the Commonwealth of Puerto Rico and its Instrumentalities; Government Development Bank for Puerto Rico and its subsidiaries, affiliates, and entities ascribed to GDB; the Judiciary Retirement System; the Municipal Finance Agency; the Municipal Finance Corporation; the Puerto Rico Public Finance Corporation; the Puerto Rico Industrial Development Company, the Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority; the Puerto Rico Infrastructure Financing Authority; the Puerto Rico Sales Tax Financing Corporation (COFINA); the Puerto Rico System of Annuities and Pensions for Teachers; and the University of Puerto Rico.

The Debt Enforcement Act established two types of processes to address a public corporation's debt burden. The first is a consensual debt modification process that culminates in a recovery program whose objective is to enable the public corporation to become financially self sufficient, allocate equitably among all stakeholders the burdens of the recovery program and provide the same treatment to all creditors. The debt relief available under this consensual process may include a combination of amendments to (such as rate adjustments, maturity extensions etc.), or waivers or exchanges of those debt instruments identified by the public corporation. The debt enforcement remedies available to holders of affected debt instruments are suspended during the pendency of the process, up to 270 days (subject to a limited extension). Any amendments to a class of affected debt instruments must be approved by holders representing at least 75% of the amount of debt in such class that participate in the voting/approval process, provided that holders of at least 50% of the amount of debt in such class participate in the voting/approval process. Once approved by such debt holders, the public corporation must obtain court approval in order for the amendments to be binding on all debt holders of the affected class. The Act provides for the creation of a specialized courtroom to handle all court proceedings involving the interpretation and application of the provisions of the Act.

The second type of process established in the Act is more akin to the type of procedure found in Chapters 9 of the United States Bankruptcy Code. The process would begin with the filing of a petition for relief in the specialized courtroom described above. Upon the filing of the petition, any action for the enforcement of any claims against such petitioner is automatically stayed. To be eligible for filing the petitioner must be: (1) currently unable or at serious risk of being unable to pay valid debts as they mature, while continuing to provide public services, without additional legislative or financial assistance;(2) ineligible for relief under Chapter 11 of the United States Bankruptcy Code; and, (3) authorized to file the petition by its governing body and GDB, or on its behalf by GDB at the request of the Governor of Puerto Rico. This process will allow a public corporation to defer its debt repayment and to decrease interest on and principal of its debt to the extent necessary to enable it to continue to fulfill its public functions. Collective bargaining agreements may be modified or rejected under certain circumstances, other types of contracts can be rejected (giving rise to claims for breach of contract) and trade debt can be reduced when necessary. The process is designed to permit the public corporations to satisfy their contractual obligations to the maximum extent possible, to maximize distributions to creditors consistent with and subject to the execution of vital public functions. During the pendency of this process the public corporation remains in

possession and control of its assets and operations. Only the public corporation (or the Governor in its stead) is authorized to file a petition for debt enforcement under this process - a creditor may not file a petition.

Presently, the Commonwealth does not have in place a debt restructuring plan for any of its public corporations covered by this Act.

On June 28, 2014, a group of bondholders request a declaratory judgment challenging the constitutionally of the Debt Enforcement Act in the U.S. District Court for the District Court of Puerto Rico.

(a) ***GDB***

On February 7, 2014, Moody's downgraded GDB's Senior Notes from Baa3 to Ba2 and Puerto Rico Public Finance Corporation (PRPFC), a blended component unit of the GDB, Commonwealth Appropriation Bonds from Ba1 to Ba3, and maintained a negative outlook on all these bonds. The ratings reflect only the opinions of such rating agency and an explanation of the significance of such ratings may be obtained only from the relevant rating agency.

On February 4, 2014, Standard & Poor's Ratings Services ("S&P") lowered its rating on the bonds of Government Development Bank for Puerto Rico ("GDB"), including those of its blended component unit, the Puerto Rico Public Finance Corporation (the Commonwealth Appropriation Bonds) to "BB," one notch below the Commonwealth's general obligation rating of BB+, which was also lowered from BBB- on the same date. S&P kept all of these ratings on Credit Watch with negative implications, and noted that further downgrades were possible.

The Commonwealth has recently reformed and amended GDB's lending practices, financing capacity and oversight powers of public funds through Act No. 24 of 2014. This Act prohibits the GDB, subject to certain limited exceptions from making loans to public corporations payable from future increases in rates, taxes or other charges. In essence, each public corporation seeking financing from the GDB must demonstrate sufficient approved revenue streams to cover debt service on any GDB loan. Act 24 is intended to impose fiscal discipline on the public corporations, while preserving GDB's balance sheet. For more details about this Act, please refer to note 15(a).

Housing Finance Authority – Act No. 34 of June 26, 2013 was enacted to provide subsidies to eligible individuals of families for the purchase of an eligible principal residence. To that effect the Housing Finance Authority created, in July 2013, My Own Home Fund and transferred $6.1 million of its own funds for the operation of the program. The Housing Finance Authority is pending to receive $9.2 million from the OMB which will also be used on the program.

(b) ***PRASA***

Effective July 15, 2013, PRASA revised by approximately 60% the actual rate structure to increase operating revenues for fiscal year 2014.

On July 24, 2013, PRASA entered into a $50.0 million credit agreement with a commercial bank. The loan proceeds were used to finance certain capital improvements to the PRASA's water system and cover associated loan costs. The loan is mainly repayable from bond anticipation notes to be

issued by PRASA. The loan agreement bears interest equal to LIBOR rate plus the applicable margin, as defined, with a floor of 4.25% and the interest is payable at maturity date. The applicable margin is 400 basis points or 600 basis points if the long-term credit rating of the PRASA outstanding senior bonds is downgraded below Ba1 by Moody's Investors Service and below BB+ by Standard & Poor's and Fitch Ratings. As amended on August 28, 2013, the loan matures not later than December 30, 2013. The loan is a senior debt on a parity with the PRASA's senior bonds and shall be equally and ratably secured by the pledged of the PRASA's revenues (other than that portion of the PRASA's revenues consisting of appropriations from the Commonwealth for the payment of principal and interest on the PRASA's Commonwealth Guaranteed Indebtedness and the PRASA's Commonwealth Supported Obligations.

On February 4, 2014, S&P lowered its rating on the bonds of PRASA one notch to BB+. S&P kept all of this rating on Credit Watch with negative implications. On February 7, 2014, Moody's downgraded PRASA's Revenue Bonds from Ba1 to Ba2 with a negative outlook. On February 11, 2014, Fitch downgraded PRASA's Commonwealth Guaranteed Bonds from BBB- to BB with a negative outlook, although the rating has been removed from the Ratings Watch Negative. The ratings reflect only the opinions of such rating agency and an explanation of the significance of such ratings may be obtained only from the relevant rating agency.

On June 27, 2014, Moody's lowered ratings on the bonds of PRASA from Ba2 to Ba3. The rating reflects the Commonwealth's declaration of intent through legislation to allow restructuring of public corporations liabilities, which demonstrates a willingness and ability to repay obligations that is weaker than the Commonwealth's full faith and credit.

(c) *PREPA*

Act No. 50 of July 1, 2013 authorizes PREPA to charge an "all in rate" preferential rate to PRASA of twenty-two (22) cents per kilowatt hour for fiscal years 2014, 2015, and 2016. Starting in fiscal year 2017, the "all in rate" preferential rate charged to PRASA will be reduced to sixteen (16) cents per kilowatt hour subject to certain terms and conditions.

On August 15, 2013, PREPA issued $673,145,000 Puerto Rico Power Electric Authority Power Revenue Bonds, Series 2013A (the Series 2013A Bonds). The Series 2013A Bonds consist of $35,000,000 and $130,645,000 serial bonds maturing on July 1, 2030 and 2043, respectively, and bearing interest at 7.25% and 7%, respectively, and $150,000,000, $307,500,000 and $50,000,000 term bonds due on July 1, 2033, 2036, and 2040, respectively, and bearing interest at 7%, 6.75%, and 7%, respectively. The proceeds of the Bonds will be used to (i) finance a portion of the cost of various projects under its capital improvement program, (ii) fund a deposit to the Reserve Account in the Puerto Rico Electric Power Authority Revenue Bonds Interest and Sinking Fund, (iii) pay capitalized interest on the Series 2013A Bonds through January 1, 2016 and (iv) pay the costs of issuance of the Series 2013A Bonds.

On February 7, 2014, Moody's downgraded from Baa3 to Ba2 the rating on the Puerto Rico Electric Power Authority's (PREPA) approximately $8.7 billion of outstanding power revenue bonds. The rating is maintained with a negative outlook. Then, on February 18, 2014, Fitch downgraded from BBB- to BB+ the rating on the same amount of outstanding power revenue bonds and revised the rating outlook from stable to negative. The ratings reflect only the opinions of such rating agency

and an explanation of the significance of such ratings may be obtained only from the relevant rating agency. These credit rating downgrades could result in the acceleration of certain PREPA obligations or the termination of certain credit and liquidity facilities that support certain PREPA obligations. The most significant of such maturing, accelerable or terminable obligations of PREPA are listed below:

- Revolving line of credit in an aggregate principal amount of $250 million (of which approximately $249.5 million was outstanding as of January 31, 2014) due to commercial banks, with a final maturity date of October 7, 2014.
- Revolving line of credit in an aggregate principal amount of $550 million (of which approximately $513.7 million was outstanding as of January 31, 2014), due to commercial banks, with a final maturity date of August 15, 2014.
- Notional amount of certain basis swaps in the amount of $1.35 billion.

Commonwealth and PREPA have entered into 30-day standstill agreements with swap counterparties with respect to approximately $1.35 billion in notional amount of certain basis swaps. Also, negotiations with respect to waivers, amendments and/or extensions with respect to the PREPA's revolving lines of credit are at an advanced stage. There can be no assurance at this time, however, as to the final outcome of such discussions or the nature or extent of the relief provided, if any, with respect to the acceleration rights described above.

On June 11, 2014, Fitch rating downgraded the PREPA's revenue bonds from BB+ to BB. The rating is under review for possible further downgrade. The rating change was based on the assumption that GDB may not provide interim liquidity to PREPA and that PREPA may not renew its lines of credit maturing in July and August 2014. On June 18, 2014, S&P downgraded its rating on PREPA from BBB to BBB-. On June 26, 2014, Moody's and Fitch downgraded the rating on $8.7 billion of PREPA's power revenue bonds from Ba2 to Ba3 and from BB to CC, respectively. On June 27, 2014, S&P also downgraded the same bonds from Ba2 to Ba3. The downgrade reflect concerns with PREPA's increasingly tight liquidity and the ratings agencies' view, based on the enactment of the Debt Enforcement Act, that a debt restructuring or default by PREPA is probable as a result of the near-term maturities of the bank lines of credit mentioned above. The ratings only reflect the opinions of such rating agencies and an explanation of the significance of such rating may be obtained only from the relevant rating agencies.

(d) *PRHTA*

On August 29, 2013, the PRHTA issued $400,000,000 Puerto Rico Highways and Transportation Authority Special Revenue Bonds, 2013A Bond Anticipation Notes (the Series A Notes). The Series A Notes mature on September 1, 2015 and bear interest at the Index Rate, as defined. The Index Rate is computed as the sum of the LIBOR plus the Applicable Spread (2.40%) and is subject to adjustment as provided in the 2013 Resolution. The Series A Notes are payable from, and are secured by the pledge of, certain revenues of the PRHTA, which include (i) the excise taxes in excess of $120 million per fiscal year, imposed by the Commonwealth on certain petroleum products; (ii) the remaining $25 per vehicle annual license fees imposed by the Commonwealth, which was previously allocated to the Department of the Treasury; (iii) the total amount of excise taxes up to $20 million per fiscal year, imposed by the Commonwealth on cigarettes;

(iv) unencumbered revenues held in the 1998 Construction Fund established under Resolution No. 98-06 adopted by the PRHTA on February 26, 1998, as amended and (v) any additional revenues pledged to the PRHTA in accordance with the 2013 Resolution. The proceeds of the Series A Notes will be used to (i) pay a portion of the PRHTA's loans from the GDB and (ii) pay the costs of issuance of the Series A Notes.

On August 28, 2013, the PRHTA entered into a $61.8 million non-revolving line of credit agreement with the GDB for working capital purposes. The line of credit matures on February 28, 2014 and bears interest at prime rate plus 150 basis points (with a cap of 12% and a floor of 6.00%), payable at maturity date.

On February 4, 2014, S&P lowered various ratings on the PRHTA's bonds to the same rating as the Commonwealth GO at 'BB+', and kept it on CreditWatch with negative implications, to reflect the potential diversion of gas tax-derived revenue to pay GO debt service under the Commonwealth Constitution. On February 7, 2014, Moody's downgraded PRHTA's Transportation Revenue Bonds from Baa3 to Ba2, its Highway Revenue Bonds from Baa2 to Ba1 and its Subordinate Transportation Revenue Bonds from Ba1 to Ba3 with a negative outlook, based on expectations of continued stagnation or decline in the Commonwealth economy. The rating changes were driven by the downgrade of the Commonwealth's general obligation bonds from Baa3 to Ba2. The ratings reflect only the opinions of such rating agency and an explanation of the significance of such ratings may be obtained only from the relevant rating agency. These credit rating downgrades could result in the acceleration of certain PRHTA obligations or the termination of certain credit and liquidity facilities that support certain PRHTA obligations. The downgrades also resulted in additional collateral postings and termination events under certain derivatives agreements. The most significant of such maturing, accelerable or terminable obligations of the PRHTA are listed below:

- Bond anticipation notes in an aggregate principal amount of $400 million, which were directly purchased by a financial institution, and which matures on September 1, 2015. On February 12, 2014, the PRHTA amended the documents to its $400 million bond anticipation notes, limiting the holder's right to accelerate and waiving covenant defaults due to the downgrades. Principal set-asides will continue as originally scheduled.

- VRDO in an aggregate principal amount of approximately $200 million supported by a liquidity facility that expired on May 27, 2014, but that could be subject to acceleration as a result of the downgrade. The provider of the liquidity facility may cause the mandatory tender of the bonds and, thereafter, require the immediate repayment of the amounts disbursed under the liquidity facility. On May 19, 2014, GDB purchased the outstanding balance of these VRDOs.

In addition, the interest rates on certain bonds and notes will increase as a result of the credit downgrades, to rates ranging from 10%-12%. In addition to the possible acceleration of debt instruments described above, the credit rating downgrades have triggered additional termination events under interest rate exchange (swap) and other derivative agreements relating to outstanding bonds and notes of the PRHTA, making them now subject to termination at the option of the applicable counterparty.

As a result of these credit rating downgrades, the PRHTA has posted approximately $70 million in

additional collateral, which was funded through the GDB. In addition, as a result of the downgrades, almost all of the interest rate exchange agreements are now subject to termination at the option of the applicable counterparty. If any such agreements were to be terminated, the PRHTA, as applicable, would then be subject to variable rate interest risk on any corresponding variable rate indebtedness. Any collateral posted at the time of the terminations could be used to effectively offset a like-amount of liquidity needed to fund the termination payments.

On June 27, 2014, Moody's lowered the ratings on the bonds of PRHTA from Ba2 to Ba3. The rating reflects the Commonwealth's declaration of intent through legislation to allow restructuring of public corporations liabilities, which demonstrates a willingness and ability to repay obligations that is weaker than the Commonwealth's full faith and credit.

(e) ***UPR***

On November 21, 2013, NSF lifted its suspension of the Research and Development Center at the Mayaguez Campus and in the Resource Center for Science and Engineering ascribed to the Central Administration unit of UPR.

In September 2013, the Federal Centers for Disease Control and Prevention (CDC) issued a preliminary report, which indicated that a bacteria affected several patients in the UPR's Hospital Intensive Care Unit (the Hospital) during a period of time, which include several months of the year ended June 30, 2013. The Hospital may be subject to penalties or sanctions as a result of this situation. Also, there are known judicial and extra-judicial claims related with this matter. As permitted by Act No. 98 of August 24, 1994, maximum claims loss against the Hospital is limited to $75,000 per person, or $150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. It is the opinion of the Hospital and UPR's management and its legal counsel that the outcome of these claims would not have a material effect on the Hospital's financial statements.

In January 2014, a $75 million line of credit facility with the GDB was amended to extend the maturity date to January 31, 2016.

On February 4, 2014, S&P downgraded UPR's revenue bonds and the Desarrollos Universitarios, Inc. (DUI), AFICA bonds from BBB- to BB+. On February 10, 2014, Moody's downgraded the UPR's revenue bonds from Ba1 to Ba3 and the DUI's AFICA bonds from Ba2 to B1. The Moody's rating differential reflects the subordinate pledge and lease structure of the DUI's AFICA bonds. Both rating actions followed the downgrade on February 4, 2014 by S&P and on February 7, 2014 by Moody's of the Commonwealth and GDB bonds, which it has generally mirrored given UPR's significant dependence on Commonwealth's appropriations. The outlook is negative; the UPR is highly reliant on the Commonwealth operating revenues and for governance coupled with reliance on the GDB for liquidity and financial management support. The UPR has weak liquidity and limited ability to grow other revenue sources.

(f) ***PRCCDA***

On October 1, 2013, the PRCCDA entered into a $6.7 million line of credit with the GDB for payments to expropriate the structure currently existing in Parcel C. Borrowings under this line of credit bear interest at 6% through 2013 and are due at September 30, 2014. This line of credit will be

paid with the sale of Parcel C or any other income generated from the Parcel.

On February 10, 2014, Moody's downgraded the PRCCDA's hotel occupancy tax revenue bonds from Baa3 to Ba2, followed by the downgrade on February 4, 2014 by S&P and on February 7, 2014 by Moody's of the Commonwealth and GDB bonds.

(g) ***PRPA***

During December 2013, the line of credit of $74.6 million payable to the GDB, used for the mandatory tender of the PRIFA Series A Bonds, was converted into a five (5) years term loan. The term loan is to be repaid by the PRPA in monthly principal payments of approximately $1.2 million plus interest at the rate of 150 basis points over the prevailing prime rate, but never to be less than 6%. Also during December 2013, the line of credit of $96.8 million payable to the GDB, used for the mandatory partial tender of the PRIFA Series C Bonds, was converted into a five (5) years term loan. The term loan is to be repaid by the PRPA in monthly principal payments of approximately $1.6 million plus interest at the rate of 150 basis points over the prevailing prime rate, but never to be less than 6%.

(h) ***PPPA***

On September 17, 2013, the board of directors of the PPPA approved a study of desirability and convenience for the possible partnership project for the establishment of a commuter train between the municipalities of Caguas and San Juan, and therefore, authorized the PPPA to start the process for the establishment of such public private partnership.

(i) ***SIFC***

On December 19, 2013 SIFC entered into a Note Purchase Agreement with the GDB whereby SIFC agreed to purchase from the GDB Senior Guaranteed Notes in an aggregate amount of $110 million which are guaranteed by the Commonwealth full faith, credit and taxing power pursuant to Act No. 12 of the Legislature, approved on May 9, 1975, as amended (the Guaranty Act). The notes bear interest, payable monthly, in arrears, on the first day of each month at 8% per annum, commencing on February 1, 2014. The notes mature as follow: $40 million in 2017, $30 million in 2018 and $40 million in 2019. Act No. 43 of June 30, 2013, requires a transfer of $40 million from SIFC to the Budgetary Support Fund of 2013-14 under the custody of the OMB, in two payments due on September 30, 2013 and March 31, 2014.

(j) ***PRMFA***

During February 2014, various credit rating agencies lowered the credit rating on PRMFA's bonds payable to non-investment grade. These credit agencies cited their evaluation of the Commonwealth's liquidity as the reason for the decrease in credit rating. As a result of this event, management of the PRMFA has evaluated PRMFA's capacity to timely comply with the debt service requirements of its bonds payable. The PRMFA has $1 billion in investment securities which are restricted for the debt service payment. PRMFA's management believes its investment securities portfolio, as a readily marketable investment, provides a strong liquidity source to support debt service requirements on its bonds payable on a timely basis.

(k) ***UPRCCC***

On October 16, 2013, the UPRCCC's Board of Directors approved and authorized an agreement with the GDB to amend the 2007 loan agreement and line of credit and the establishment of a new revolving credit facility in the aggregate principal amount up to $196 million. The purposes of such financing are the construction and development of a ninety-six (96) bed tertiary clinical facility and hospital specialized in cancer treatment and prevention in the Municipality of San Juan, to purchase machinery and equipment, the payment of maintenance of the facilities of UPRCCC and the improvement thereon, and the payment of costs incurred in connection of such financing. The agreement was signed in November 2013.

(l) ***PRTEC***

On September 30, 2013, the PRTEC called $95 million of its collateralized promissory notes.

REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO

Required Supplementary Information (Unaudited)

Schedule of Funding Progress – Defined Benefit Pension Plans

Year ended June 30, 2013

The Schedule of Funding Progress presents the following information for the past six years for each of the Commonwelath's defined benefit pension plans. All actuarially determined information has been calculated in accordance with actuarial assumptions and methods reflected in the actuarial valuations as of the indicated actuarial valuation date.

Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2013	$ 731,342	23,712,081	22,980,739	3%	$ 3,489,096	659
June 30, 2012	1,236,873	27,645,786	26,408,913	5	3,570,339	740
June 30, 2011	1,723,811	25,457,354	23,733,543	7	3,666,402	647
June 30, 2010	1,667,358	21,370,006	19,702,648	8	3,818,332	516
June 30, 2009	1,851,223	18,943,586	17,092,363	10	4,292,552	398
June 30, 2008	2,607,086	N/D	N/D	N/D	N/D	N/D

Retirement System for the Judiciary of the Commonwealth of Puerto Rico (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2013	$ 59,012	416,734	357,722	14%	$ 32,138	1,113
June 30, 2012	58,588	416,340	357,752	14	33,066	1,082
June 30, 2011	63,975	382,776	318,801	17	31,811	1,002
June 30, 2010	55,410	338,195	282,785	16	32,061	882
June 30, 2009	50,566	323,928	273,362	16	30,587	894
June 30, 2008	69,311	N/D	N/D	N/D	N/D	N/D

Puerto Rico System of Annuities and Pensions for Teachers (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2013	$ 1,906,882	12,251,995	10,345,113	16%	$ 1,248,674	829
June 30, 2012	2,099,563	12,350,836	10,251,273	17	1,292,975	793
June 30, 2011	2,385,863	11,448,609	9,062,746	21	1,320,400	686
June 30, 2010	2,221,977	9,279,776	7,057,799	21	—	515
June 30, 2009	2,157,593	8,721,515	6,563,922	25	1,418,304	463
June 30, 2008	N/D	N/D	N/D	N/D	N/D	N/D

N/D = Not determined

Note: See accompanying independent auditors‘ report.

COMMONWEALTH OF PUERTO RICO

Required Supplementary Information (Unaudited)

Schedule of Funding Progress – Postemployment Healthcare Plans

Year ended June 30, 2013

The Schedule of Funding Progress presents the following information for the past six years for each of the Commonwealth's defined benefit postemployment healthcare plans. All actuarially determined information has been calculated in accordance with actuarial assumptions and methods reflected in the actuarial valuations as of the indicated actuarial valuation date.

Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2013	$ —	1,482,879	1,482,879	%	$ 3,489,096	43
June 30, 2012	—	2,120,970	2,120,970	—	3,570,339	59
June 30, 2011	—	1,758,389	1,758,389	—	3,666,402	48
June 30, 2010	—	1,699,373	1,699,373	—	3,818,332	45
June 30, 2009	—	1,633,159	1,633,159	—	4,292,552	38
June 30, 2008	—	N/D	N/D	—	N/D	N/D

Retirement System for the Judiciary of the Commonwealth of Puerto Rico (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2013	$ —	6,705	6,705	%	$ 32,138	21
June 30, 2012	—	6,592	6,592	—	33,066	20
June 30, 2011	—	5,810	5,810	—	31,811	18
June 30, 2010	—	5,808	5,808	—	32,061	18
June 30, 2009	—	5,643	5,643	—	30,587	19
June 30, 2008	—	N/D	N/D	—	N/D	N/D

Puerto Rico System of Annuities and Pensions for Teachers (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2013	$ —	792,875	792,875	%	$ 1,248,674	64
June 30, 2012	—	797,332	797,332	—	1,292,975	62
June 30, 2011	—	706,069	706,069	—	1,320,400	54
June 30, 2010	—	694,230	694,230	—	—	51
June 30, 2009	—	750,382	750,382	—	1,418,304	53
June 30, 2008	—	N/D	N/D	—	N/D	N/D

N/D = Not determined

Note: See accompanying independent auditors‘ report.

COMMONWEALTH OF PUERTO RICO

Required Supplementary Information (Unaudited)

Schedule of Employer's Contribution

Year ended June 30, 2013

The following table shows the Commonwealth's annual required contribution (ARC) and percent of the ARC funded for the past six fiscal years in the case of the Retirement Systems and past three fiscal years in the case of post employment healthcare benefits. (Amounts in thousands except for percentages)

Retirement Systems

	ERS		JRS		TRS	
Fiscal Year Ended	**Annual Required Contribution**	**Percentage Contributed**	**Annual Required Contribution**	**Percentage Contributed**	**Annual Required Contribution**	**Percentage Contributed**
June 30, 2013	$ 2,192,821	29	38,501	30	$ 736,591	26
June 30, 2012	2,019,467	29	33,544	34	659,334	27
June 30, 2011	1,734,979	40	29,684	37	528,170	30
June 30, 2010	1,459,774	36	28,127	39	477,213	35
June 30, 2009	1,258,695	47	22,195	50	393,871	44
June 30, 2008	1,191,275	56	19,803	37	341,495	46

Post Employment Healthcare Benefits

	ERS		JRS		TRS	
Fiscal Year Ended	**Annual Required Contribution**	**Percentage Contributed**	**Annual Required Contribution**	**Percentage Contributed**	**Annual Required Contribution**	**Percentage Contributed**
June 30, 2013	$ 154,999	59	643	45	$ 45,669	75
June 30, 2012	133,654	71	554	53	41,069	84
June 30, 2011	129,395	73	529	48	39,925	84
June 30, 2010	128,294	69	488	52	42,487	71
June 30, 2009	111,683	77	425	55	38,015	77
June 30, 2008	110,650	72	408	55	36,836	77

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Required Supplementary Information - Unaudited
Schedule of Revenues and Expenditures – Budget and Actual –
Budgetary Basis – General Fund
Year ended June 30, 2013
(In thousands)

		Original budget	Amended budget	Actual
Revenues:				
Income taxes	$	4,715,000	4,325,000	4,375,037
Sales and use taxes		691,000	552,000	539,929
Excise taxes		2,667,000	2,557,000	2,568,164
Property taxes		—	12,000	52,614
Other taxes		84,000	78,000	81,127
Charges for services		110,000	90,000	105,644
Revenues from component units		24,000	24,000	24,594
Intergovernmental		223,000	249,000	247,848
Other		128,000	123,000	136,424
Total revenues		8,642,000	8,010,000	8,131,381
Expenditures – current:				
General government		1,196,469	1,163,279	1,382,066
Public safety		1,989,895	1,984,535	1,966,079
Health		1,374,141	1,379,399	1,378,397
Public housing and welfare		482,736	486,659	460,269
Education		3,073,372	3,102,839	2,916,347
Economic development		431,329	425,495	413,948
Intergovernmental		405,621	411,357	421,359
Total expenditures		8,953,563	8,953,563	8,938,465
Deficiency of revenues under expenditures		(311,563)	(943,563)	(807,084)
Other financing sources (uses):				
Notes payable issued for debt service		—	—	600,433
Transfer in from COFINA		332,000	332,000	459,148
Transfer in from Debt Service Fund and Lottries Fund		108,000	295,000	502,911
Transfer out and other payments for debt service		(128,437)	(128,437)	(946,410)
Total other financing sources		311,563	498,563	616,082
Deficiency of revenues and other financing sources under expenditures and other financing uses	$	—	(445,000)	(191,002)

See accompanying independent auditors' report.

(1) Schedule of Funding Progress

The schedule of funding progress provides information about the funded status of the Retirement Systems and the progress being made in accumulating sufficient assets to pay benefits when due. The information was obtained from the last actuarial report as of June 30, 2013.

(2) Schedule of Employers' Contributions

The schedule of employers' contributions provides information about the annual required contributions (ARC) and the extent to which contributions made cover the ARC. The ARC is the annual required contribution for the year calculated in accordance with certain parameters, which include actuarial methods and assumptions.

The Retirement Systems' schedule of employers' contributions includes both Commonwealth's and participating employees' contributions as the Commonwealth's contributions, ultimately, should cover any deficiency between the participating employees' contributions, pension benefits, and the Retirement Systems' administration costs.

The information was obtained from the last actuarial report as of June 30, 2013.

(3) Budgetary Control

The Governor is constitutionally required to submit to the Legislature an annual balanced budget of the Commonwealth for the ensuing fiscal year. The annual budget is prepared by the Commonwealth's Office of Management and Budget (OMB) and takes into consideration the advice provided by the Puerto Rico Planning Board (annual economic growth forecasts and four year capital improvements plan), the Department of the Treasury of the Commonwealth (revenue estimates, accounting records, and the comprehensive annual financial report), the GDB (fiscal agent), and other governmental offices and agencies. Section 7 of Article VI of the Constitution of Puerto Rico provides that "The appropriations made for any fiscal year shall not exceed the total revenue, including available surplus, estimated for the said fiscal year, unless the imposition of taxes sufficient to cover the said appropriations is provided by law".

The annual budget, which is developed utilizing elements of program budgeting, includes an estimate of revenue and other resources for the ensuing fiscal year under: (i) laws existing at the time the budget is submitted; and (ii) legislative measures proposed by the Governor and submitted with the proposed budget, as well as the Governor's recommendations as to appropriations that in his judgment are necessary, convenient, and in conformity with the four year capital improvements plan adopted by the Puerto Rico Planning Board.

The Legislature may amend the budget submitted by the Governor but may not increase any items so as to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. Upon passage by the Legislature, the budget is referred to the Governor who may decrease or eliminate any line item but may not increase or insert any new line item in the budget. The Governor may also veto the budget in its entirety and return it to the Legislature with his objections. The Legislature, by two thirds majority in each house, may override the Governor's veto. If a budget is not adopted prior to the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Legislature and the Governor, is automatically renewed for the ensuing fiscal year until a new budget is approved by the

Legislature and the Governor. This permits the Commonwealth to continue making payments for its operating and other expenses until the new budget is approved. The appropriated annual budget for fiscal year 2013 (including other financing uses) amounted to approximately $9.1 billion, including several special budget appropriations to the General Fund made by the Legislature throughout the year which amounted to approximately $4.0 billion.

The OMB has authority to amend the budget within a department, agency, or government unit without legislative approval.

For budgetary purposes, encumbrance accounting is used. The encumbrances (that is, purchase orders and contracts) are considered expenditures when a commitment is made. For US GAAP reporting purposes, encumbrances outstanding at year end are reported within the restricted, committed, assigned, and unassigned fund balance classifications and do not constitute expenditures or liabilities on a US GAAP basis because the commitments will be honored during the subsequent year. The unencumbered balance of any appropriation of the General Fund at the end of the fiscal year lapses immediately. Appropriations, other than in the General Fund, are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending. In addition, for budgetary purposes, revenues are recorded when cash is received.

During any fiscal year in which the resources available to the Commonwealth are insufficient to cover the appropriations approved for such year, the Governor may take administrative measures to reduce expenses and submit to both houses of the Legislature a detailed report of any adjustment necessary to balance the budget, or make recommendations to the Legislature for new taxes or authorize borrowings under provisions of existing legislation or take any other necessary action to meet the estimated deficiency. Any such proposed adjustments shall give effect to the “priority norms” established by law for the disbursement of public funds in the following order of priority: (i) the payment of the interest on and amortization requirements for public debt (Commonwealth general obligations and guaranteed debt for which the Commonwealth’s guarantee has been exercised); (ii) the fulfillment of obligations arising out of legally binding contracts, court decisions on eminent domain, and other unavoidable obligations to protect the name, credit and full faith of the Commonwealth; (iii) current expenditures in the areas of health, protection of persons and property, education, welfare and retirement systems; and (iv), all other purposes.

In addition, the Legislature may direct that certain revenue be retained and made available for spending within a specific appropriation account. Generally, expenditures may not exceed the level of spending authorized for an individual department. However, the Commonwealth is statutorily required to pay debt service, regardless of whether such amounts are appropriated. Appropriations are enacted for certain departments, agencies, and government units included in the General Fund.

For these funds, a schedule of revenue and expenditures – budget and actual budgetary basis – General Fund is included. Appropriations for capital projects are made for each bond issue and the authorization continues for the expected construction period.

The OMB has the responsibility to ensure that budgetary spending control is maintained on an individual department basis. The OMB may transfer part or all of any unencumbered balance within a department to another department subject to legislative approval. Budgetary control is exercised through the Puerto Rico Integrated Financial Accounting System (PRIFAS). PRIFAS ensures that encumbrances or expenditures

are not processed if they exceed the department's total available spending authorization, which is considered its budget. The legal level of budgetary control is at the individual department level for General Fund expenditures, principal and interest due for the year for the debt service fund, and by bond authorization for capital expenditures.

(4) Statutory (Budgetary) Accounting

The Commonwealth's budget is adopted in accordance with a statutory basis of accounting, which is not in accordance with US GAAP. Revenue is generally recognized when cash is received, net of estimated income tax refunds. Short term and long-term borrowings may be used to finance budgetary excess of expenditures over revenue. Expenditures are generally recorded when the related expenditure is incurred or encumbered. Encumbrances generally lapse the year following the end of the fiscal year when the encumbrance was established, as established by Act No. 123 of August 17, 2001. Unencumbered appropriations lapse at year-end. Amounts required for settling claims and judgments against the Commonwealth and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment.

Under the statutory basis of accounting, the Commonwealth uses encumbrance accounting to record the full amount of purchase orders, contracts, and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control.

The schedule of revenue and expenditures – budget and actual – budgetary basis – General Fund only presents the information for the General Fund for which there is a legally adopted budget, as required by US GAAP. See note 5 for a reconciliation of the statement of revenue and expenditures – budget and actual – budgetary basis – General Fund with the statement of revenues, expenditures, and changes in fund balances (deficit) for the General Fund. The special revenue funds do not have a legally mandated budget.

(5) Budget/US GAAP Reconciliation

The following schedule presents comparisons of the legally adopted budget with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with U.S. GAAP, a reconciliation of entity, timing, and basis differences in the excess (deficiency) of revenue and other financing sources over expenditures and other financing uses for the year ended June 30, 2013 is presented below for the General Fund (expressed in thousands):

COMMONWEALTH OF PUERTO RICO

Notes to Required Supplementary Information (Unaudited)

June 30, 2013

Deficiency of revenues and other financing sources under expenditures and other financing uses – budgetary basis	$	(191,002)
Entity differences-deficiency of revenues and other financing sources under expenditures and other financing uses for:		
Nonbudgeted funds		(297,521)
Inclusion of agencies with independent treasuries		(59,352)
Timing differences:		
Adjustment for encumbrances		150,687
Current year expenditures against prior year encumbrances		(254,080)
Basis of accounting differences:		
Net decrease in taxes receivable (net of tax refunds and deferred revenues)		(190,126)
Net decrease in other receivables		(1,437)
Excess of revenues and other financing sources over expenditures and other financing uses – US GAAP basis	$	(842,831)

See accompanying independent auditor’s report.

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

COMMONWEALTH OF PUERTO RICO

General Fund

Year ended June 30, 2013

The General Fund is the primary operating fund of the Commonwealth. The General Fund is used to account for and report all financial resources received and used for those services traditionally provided by a government, which are not required legally or by sound financial management to be accounted for in another fund. Included are transactions for services such as general government, public safety, health, public housing and welfare, education, and economic development. Following is the supplemental schedule of expenditures – budget and actual – General Fund.

COMMONWEALTH OF PUERTO RICO

Supplemental Schedule of Expenditures by Agency – Budget and Actual
Budgetary Basis – General Fund

Year ended June 30, 2013

(In thousands)

		Original budget	Amended budget	Actual
Expenditures - Current:				
General government:				
Senate of Puerto Rico	$	45,749	45,749	45,759
House of Representatives of Puerto Rico		54,125	53,125	53,152
Comptroller's Office		43,000	43,000	42,979
Governor's Office		23,934	23,592	23,730
Office of Management and Budget (1)		54,894	52,758	22,764
Planning Board		11,737	11,606	10,078
Department of State		7,921	6,717	6,425
Department of the Treasury (1)		291,932	290,750	539,414
Central Office of Personnel Administration		4,292	4,292	4,262
Commonwealth Elections Commission		73,522	73,522	67,043
Federal Affairs Administration		4,935	4,807	4,531
General Services Administration		200	200	202
Municipal Complaints Hearing Commission		5,118	5,090	6,055
Civil Rights Commission		3,067	1,193	703
Office of the Citizen's Ombudsman		5,808	5,808	4,896
Government Ethics Board		10,290	10,290	10,290
Legislative Affairs Office		17,897	17,897	17,897
Office of the Superintendent of the Capitol		20,194	20,194	20,195
Comptroller's Special Reports Joint Commission		691	691	731
Legislative Donation Commission		22,907	1,107	1,236
Coordination Office for Special Communities of Puerto Rico		3,787	3,694	2,802
Corporation "Enlace" Caño Martín Peña		1,008	1,008	1,008
Puerto Rico Statistics Institute		641	641	641
Office for the Governmental's Integrity and Efficiency		5,948	6,130	4,503
Permits Management Office		4,981	4,981	4,376
Permits Inspector General Office		4,939	4,939	4,703
Board for the Review of Permits and Use of Lands		1,191	1,191	1,098
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico		303,175	303,175	293,675
Puerto Rico System of Annuities and Pensions for Teachers		119,353	119,353	119,353
Contributions to Political Parties		11,600	11,600	18,674
Public Buildings Authority		22,320	22,320	22,320
Procurement Administration Offices		1,740	1,741	1,691
Office of Elections Comptroller		4,879	4,879	3,756
Labor Development Administration		1,302	1,302	17,416
Telecomunication Board		3,188	—	—
Information and Technology Communication Office		151	151	113
Apellative Board of the Personnel System Administration		4,053	3,786	3,595
Total general government		1,196,469	1,163,279	1,382,066
Public safety:				
Puerto Rico General Court of Justice		342,762	342,763	336,396
Civil Defense		7,191	6,945	6,522
Commission of Investigation, Processing and Appeals Board		513	508	440
Department of Justice		144,309	135,494	132,220
Puerto Rico Police Department		814,720	813,741	796,875
Puerto Rico Firefighters Corps		68,726	68,739	66,568
Puerto Rico National Guard		11,798	12,018	11,160
Public Service Commission		6,813	6,813	6,649
Consumer Affairs Department		10,180	9,704	8,348
Correction Administration		—	—	—
Natural Resources Administration		33,943	34,922	38,220
Department of Correction and Rehabilitation		419,288	424,226	430,004
Parole Board		2,507	2,507	2,390
Forensic Sciences Institute		16,475	16,095	16,008
Special Prosecutor Panel		2,859	2,824	2,814
Pre-Trial Services Office		7,549	7,456	8,788
Correctional Health		71,696	70,995	74,187
Medical Emergencies Service		25,551	25,770	25,526
Criminal Justice College		3,015	3,015	2,964
Total public safety		1,989,895	1,984,535	1,966,079

(Continued)

COMMONWEALTH OF PUERTO RICO

Supplemental Schedule of Expenditures by Agency – Budget and Actual
Budgetary Basis – General Fund

Year ended June 30, 2013

(In thousands)

	Original budget	Amended budget	Actual
Health:			
Environmental Quality Board	6,564	7,013	11,786
Department of Health	315,379	314,478	302,075
Puerto Rico Medical Services Administration	11,022	11,022	11,022
Mental Health and Drug Addiction Services Administration	100,491	106,251	113,019
Puerto Rico Solid Waste Authority	13,000	13,024	12,950
Puerto Rico Health Insurance Administration	899,316	899,242	899,176
Medical Services Administration	24,710	24,710	24,710
University of Puerto Rico Comprehensive Cancer Center	3,659	3,659	3,659
Total health	1,374,141	1,379,399	1,378,397
Public housing and welfare:			
Office of Youth Affairs	4,284	4,547	3,445
New Business Training Administration	12	—	1
Department of Labor and Human Resources	14,253	14,443	2,165
Labor Relations Board	892	892	879
Department of Housing	19,626	19,594	18,591
Department of Recreation and Sports	47,101	50,898	49,053
Administration for the Horse Racing Sport and Industry	2,672	2,672	2,605
Women's Affairs Commission	4,326	4,298	5,130
Public Housing Administration	1,500	1,500	2,093
Office of the Veteran's Ombudsman	3,234	3,213	3,045
Department of Family	32,256	40,842	36,596
Family and Children Administration	176,630	174,238	170,711
Minors Support Administration	14,810	15,541	17,401
Vocational Rehabilitation Administration	18,646	18,499	17,675
Social Economic Development Administration	91,492	84,372	80,739
Office of the Disabled Persons Ombudsman	1,528	1,528	1,197
Office for Elderly Affairs	3,305	3,298	2,955
Right to Employment Administration	—	—	—
Company for the Integral Development of the Península de Cantera	2,825	2,825	2,825
Industries for the Blind, Mentally Retarded, and Other Disabled Persons of Puerto Rico	500	500	500
Patient Ombudsman	3,081	3,195	2,848
Administration for the Care and Development of the Childhood	8,767	8,766	8,817
Special Communities Trust	29,890	29,892	29,892
Puerto Rico Public Finance Authority	1,106	1,106	1,106
Total public housing and welfare	482,736	486,659	460,269
Education:			
Department of Education	2,180,954	2,208,709	2,019,300
Institute of Puerto Rican Culture	24,355	26,426	29,830
Puerto Rico School of Plastics Arts	2,422	2,422	2,405
State Office for Historic Preservation	1,892	1,809	1,455
University of Puerto Rico	825,676	825,676	825,276
Musical Arts Corporation	7,452	7,368	7,351
Fine Arts Center Corporation	4,111	4,111	4,041
Puerto Rico Public Broadcasting Corporation	14,848	14,607	14,978
Athenaeum of Puerto Rico	500	500	500
Puerto Rico Conservatory of Music Corporation	7,360	7,316	7,316
Puerto Rico Council on Education	3,802	3,895	3,895
Total education	3,073,372	3,102,839	2,916,347

(Continued)

COMMONWEALTH OF PUERTO RICO

Supplemental Schedule of Expenditures by Agency – Budget and Actual
Budgetary Basis – General Fund

Year ended June 30, 2013

(In thousands)

	Original budget	Amended budget	Actual
Economic development:			
Department of Transportation and Public Works	72,906	67,011	55,724
Department of Natural and Environmental Resources	7,108	6,199	6,137
Department of Agriculture	20,531	22,804	21,105
Cooperative Enterprises Development Administration	1,056	1,056	1,094
Rural Development Corporation	1,059	1,059	1,059
Energy Affairs Administration	395	396	—
Puerto Rico Infrastructure Financing Authority	117,352	117,353	117,975
Land Authority of Puerto Rico	150	150	150
Puerto Rico Industrial Development Company	3,609	3,609	3,609
Puerto Rico Ports Authority	800	800	800
Puerto Rico Electric Power Authority	131	131	131
Puerto Rico Metropolitan Bus Authority	39,791	39,768	39,970
Puerto Rico Tourism Company	50	75	54
Agricultural Enterprises Development Administration	90,606	89,276	89,779
Culebra Conservation and Development Authority	336	336	336
National Parks Company of Puerto Rico	22,002	22,032	21,850
Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico	474	467	373
Ports of Americas Authority	17,117	17,117	17,117
Local Redevelopment Authority for Roosevelt Roads Puerto Ricc	900	900	900
Puerto Rico Convention Center District Authority	12,099	12,099	12,099
Puerto Rico Maritime Transportation Authority	22,857	22,857	23,686
Total economic development	431,329	425,495	413,948
Intergovernmental – Municipal Services Administration	405,621	411,357	421,359
Total expenditures	$ 8,953,563	8,953,563	8,938,465
Operating Transfer-out to Other Funds:			
Department of the Treasury – transfer to Debt Service Fund and other funds	$ 128,437	128,437	946,410

(1) As a department and a fiscal agent.

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

General Fund

Year ended June 30, 2013

Special Revenue Funds

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Other resources (investment earnings and transfers from other funds, for example) also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund.

Public Buildings Authority Special Revenue Fund – The operating fund of the Public Buildings Authority, a blended component unit, used to account for the operation, maintenance, equipment replacement, and other extraordinary operation and maintenance costs of the buildings and facilities that, when constructed, are leased to the Commonwealth's primary government agencies.

The Children's Trust Special Revenue Fund – The special revenue fund of the Children's Trust, a blended component unit, is used to account for the money received by the Commonwealth from a global settlement agreement dated November 23, 1998 between certain tobacco companies and certain states, territories, and other jurisdictions of the United State of America, including the Commonwealth. The financial resources received by this fund are used to carry out projects aimed at promoting the well-being of children and youth of Puerto Rico.

Puerto Rico Infrastructure Financing Authority's Special Revenue Fund – The special revenue fund of the Puerto Rico Infrastructure Financing Authority, a blended component unit, is used to account principally for the moneys received by the Commonwealth, up to \$117 million, of certain federal excise taxes levied on rum and other articles produced in Puerto Rico and sold in the Unites States, which are collected by the US Treasury and returned to the Commonwealth. Under Act No. 44 of June 21, 1988, as amended, the Commonwealth transfers to this fund the first \$117 million of these federal excise taxes reimbursed, which are subsequently transferred to the Puerto Rico Infrastructure Financing Authority's Debt Service Fund to provide for the debt service of its special tax revenue bonds. This special revenue fund also receives ARRA funds for the weatherization program aimed at converting certain government buildings into eco-friendly locations.

Special Communities Perpetual Trust's Special Revenue Fund – The special revenue fund of the Special Communities Perpetual Trust, a blended component unit, is used to account for the moneys received from the Governmental Development Bank, through a line of credit financing and cash contributions, upon inception of the Special Communities Perpetual Trust. The financial resources received by this fund are used to carry out development projects that address the infrastructure and housing needs of certain underpriviledged communities.

Debt Service Funds

The debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest, and related costs other than bonds payable from operations of proprietary fund types, pension trust funds, and discretely presented component units. Long-term debt and interest due on July 1 of the following year are accounted for as a fund liability if resources are available as of June 30 for its payment.

The Children's Trust Debt Service Fund – The debt service fund of The Children's Trust accounts for the financial resources that are restricted, committed, or assigned to expenditure for the payment of interest and principal on long-term obligations financed with moneys to be received by the Commonwealth from the global settlement agreement signed by certain tobacco companies.

Public Buildings Authority Debt Service Fund – A blended component unit engaged in the construction and/or acquisition of building facilities for lease mainly to the Commonwealth's primary government agencies. Its debt service fund is used to account for the financial resources that are restricted, committed, or assigned to expenditure for the payment of revenue bonds and other liabilities incurred to finance the construction of the buildings and facilities.

Puerto Rico Maritime Shipping Authority Debt Service Fund – This is the remainder of a former shipping company owned by the Commonwealth. Its debt service fund is used to account for the financial resources that are restricted for the payment of the long-term liability that resulted from the sale of its marine operations. This fund is mainly subsidized from appropriations and operating transfers from the General Fund

Puerto Rico Infrastructure Financing Authority's Debt Service Fund – The debt service fund of the Puerto Rico Infrastructure Financing Authority accounts for the financial resources that are restricted to expenditure for the payment of interest and principal on its special tax revenue bonds. These resources are received from operating transfers from the Puerto Rico Infrastructure Financing Authority Special Revenue Fund.

Special Communities Perpetual Trust's Debt Service Fund –The debt service fund of the Special Communities Perpetual Trust accounts for the financial resources that are restricted to expenditure for the payment of interest and principal on its line of credit with the GDB, financed with moneys to be received by the Commonwealth from general legislative appropriations.

Capital Projects Funds

Capital project funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets not being financed by the Public Buildings Authority's Capital Projects Fund, the Puerto Rico Infrastructure Financing Authority's Capital Project Fund, proprietary fund types, pension trust funds, and discretely presented component units.

Commonwealth Public Improvements Funds and Other Funds – These funds present the activities of the capital improvements program of the Commonwealth, financed with the proceeds of the general obligation bonds.

Public Buildings Authority's Capital Projects Fund – The Public Buildings Authority's capital projects fund is used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets not financed by proprietary fund types, pension trust funds, and discretely presented component units.

Puerto Rico Infrastructure Financing Authority's Capital Projects Fund – The Puerto Rico Infrastructure Financing Authority's capital projects fund is used to account for and report financial resources that are restricted, committed or assigned for the acquisition or construction of capital assets and capital improvements, not financed by proprietary fund types, pension trust funds, and discretely presented component units.

COMMONWEALTH OF PUERTO RICO

Combining Balance Sheet – Nonmajor Governmental Funds

June 30, 2013

(In thousands)

	Special Revenue				Debt Service					Capital Projects				
Assets:	Public Buildings Authority	Puerto Rico Infraestructure Financing Authority	Special Communities Perpetual Trust	The Children's Trust	The Children's Trust	Public Buildings Authority	Puerto Rico Infraestructure Financing Authority	Special Communities Perpetual Trust	Puerto Rico Maritime Shipping Authority	Commonwealth of Puerto Rico	Public Buildings Authority	Puerto Rico Infraestructure Financing Authority	Eliminations	Total Nonmajor Governmental Funds
Cash and cash equivalents in commercial banks	$ 137,548	—	—	67	—	—	—	—	—	—	—	—	—	137,615
Cash and cash equivalents in governmental banks	3	2,569	—	19,534	—	—	—	—	1,642	89,647	—	—	—	113,395
Cash equivalents in PRGITF	—	—	—	—	—	—	—	—	—	88,021	308	—	—	88,329
Investments	—	—	—	17,629	—	—	—	—	—	—	—	—	—	17,629
Receivables – net of allowance for uncollectibles:														
Accounts	—	371	—	—	—	—	—	—	—	671	—	—	—	1,042
Loans	—	—	—	—	—	—	—	—	—	39	—	—	—	39
Accrued interest	—	—	91	2	—	—	—	—	—	—	—	—	—	93
Other	1,281	—	—	—	42,311	—	—	—	—	—	—	3,928	—	47,520
Due from:														
Other funds	24,790	3,618	632	—	—	—	47	—	—	4,786	—	625	—	34,498
Component units	14,745	—	—	—	—	—	—	—	—	—	—	—	—	14,745
Other governmental entities	22,325	12	245	—	—	—	—	—	—	—	—	—	—	22,582
Other assets	1,174	—	—	—	—	—	—	—	—	—	—	—	—	1,174
Restricted assets:														
Cash and cash equivalents in commercial banks	—	14,309	—	—	11	212,696	74,559	—	—	—	245,267	19,556	—	566,398
Cash and cash equivalents in governmental banks	—	—	116,772	—	—	—	—	—	37	—	25,117	59,164	—	201,090
Investments	—	225,100	—	—	110,097	—	3,139	—	—	—	—	628	—	338,964
Due from other funds	—	—	—	—	—	—	—	—	7,272	—	—	64,872	(64,872)	7,272
Due from other governmental entities	—	—	—	—	—	—	—	—	—	—	—	3,818	—	3,818
Other	—	—	—	—	441	—	—	—	—	—	—	7,531	—	7,972
Real estate held for sale or future development	198	—	—	—	—	—	—	—	—	1,854	—	—	—	2,052
Total assets	$ 202,064	245,979	117,740	37,232	152,860	212,696	77,745	—	8,951	185,018	270,692	160,122	(64,872)	1,606,227
Liabilities and Fund Balances:														
Liabilities:														
Accounts payable and accrued liabilities	$ 13,242	12,033	22,600	1,032	—	—	—	—	87	45,152	22,848	93,278	—	210,272
Due to:														
Other funds	—	1,958	1,681	—	—	—	—	—	—	—	63,285	18,402	(64,872)	20,454
Other governmental entities	4,589	—	—	—	—	—	—	—	—	650	—	2,004	—	7,243
Component units	7,919	2,163	—	—	—	—	—	—	—	—	—	1,210	—	11,292
Bond anticipation notes payable	—	—	—	—	—	—	—	—	—	204,866	—	—	—	204,866
Bonds payable	—	—	—	—	—	72,595	—	—	—	—	—	—	—	72,595
Interest payable	—	—	—	—	—	120,106	—	—	570	—	—	—	—	120,676
Deferred revenue	82,290	—	—	—	42,311	—	—	—	—	—	—	—	—	124,601
Total liabilities	108,040	16,154	24,281	1,032	42,311	192,701	—	—	657	250,668	86,133	114,894	(64,872)	771,999
Fund balances:														
Non-spendable	—	225,100	—	—	—	—	—	—	—	—	—	—	—	225,100
Restricted for:														
General government	—	508	—	—	—	—	—	—	—	—	—	—	—	508
Public housing and welfare	—	—	93,459	—	—	—	—	—	—	—	—	—	—	93,459
Capital projects	—	—	—	—	—	—	—	—	—	—	184,559	45,228	—	229,787
Debt service	—	—	—	—	110,549	19,995	77,745	—	6,702	—	—	—	—	214,991
Committed to:														
Public housing and welfare	—	—	—	29,042	—	—	—	—	—	—	—	—	—	29,042
Assigned to:														
Public housing and welfare			—	7,158	—	—	—	—	—	—	—	—	—	7,158
Capital projects	94,024	4,217	—	—	—	—	—	—	—	—	—	—	—	98,241
Debt service	—	—	—	—	—	—	—	—	1,592	—	—	—	—	1,592
Unassigned	—	—	—	—	—	—	—	—	—	(65,650)	—	—	—	(65,650)
Total fund balances (deficit)	94,024	229,825	93,459	36,200	110,549	19,995	77,745	—	8,294	(65,650)	184,559	45,228	—	834,228
Total liabilities and fund balances	$ 202,064	245,979	117,740	37,232	152,860	212,696	77,745	—	8,951	185,018	270,692	160,122	(64,872)	1,606,227

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds

Year ended June 30, 2013

(In thousands)

	Special Revenue				Debt Service					Capital Projects				
	Public Buildings Authority	Puerto Rico Infraestructure Financing Authority	Special Communities Perpetual Trust	The Children's Trust	The Children's Trust	Public Buildings Authority	Puerto Rico Infraestructure Financing Authority	Special Communities Perpetual Trust	Puerto Rico Maritime Shipping Authority	Commonwealth of Puerto Rico	Public Buildings Authority	Puerto Rico Infraestructure Financing Authority	Eliminations	Total Nonmajor Governmental Funds
Revenues:														
Interest and investment earnings	$ 3,965	(31,823)	747	35	3,382	—	208	—	2	—	—	129	—	(23,355)
Intergovernmental	—	—	—	—	—	38,262	—	—	—	—	—	—	—	38,262
Other	8,552	3,459	582	313	1	—	—	—	—	—	—	1,167	—	14,074
Total revenues	12,517	(28,364)	1,329	348	3,383	38,262	208	—	2	—	—	1,296	—	28,981
Expenditures:														
Current:														
General government	142,548	11,538	—	300	—	—	—	—	—	60,549	—	—	—	214,935
Public safety	—	—	—	—	—	—	—	—	—	803	—	24	—	827
Health	—	—	—	424	—	—	—	—	—	4,036	—	—	—	4,460
Public housing and welfare	—	—	17,562	3,629	—	—	—	—	—	4,870	—	—	—	26,061
Education	—	—	—	156	—	—	—	—	—	358	—	4,609	—	5,123
Economic development	—	—	—	—	—	—	—	—	55	196,179	—	2,360	—	198,594
Intergovernmental	—	—	—	2,702	—	—	—	—	—	11,198	—	—	—	13,900
Capital outlays	—	1,217	—	—	—	—	—	—	—	11,688	300,198	94	—	313,197
Debt service:														
Principal	4,900	—	—	—	57,935	82,835	37,460	3,235	—	—	—	40	—	186,405
Interest and other	5,575	—	—	—	53,483	252,254	81,352	25,243	6,894	35	—	313	—	425,149
Total expenditures	153,023	12,755	17,562	7,211	111,418	335,089	118,812	28,478	6,949	289,716	300,198	7,440	—	1,388,651
Deficiency of revenues under expenditures	(140,506)	(41,119)	(16,233)	(6,863)	(108,035)	(296,827)	(118,604)	(28,478)	(6,947)	(289,716)	(300,198)	(6,144)	—	(1,359,670)
Other financing sources (uses):														
Transfers in	205,063	119,886	—	—	107,687	330,271	118,885	29,892	—	200	—	11,388	(443,158)	480,114
Transfers out	(216,361)	(112,875)	—	—	—	—	—	—	—	(17,011)	(113,910)	(12)	443,158	(17,011)
Proceeds from long term debt issued	174,799	5,786	—	—	—	—	—	—	—	36,101	28,891	588	—	246,165
Total other financing sources	163,501	12,797	—	—	107,687	330,271	118,885	29,892	—	19,290	(85,019)	11,964	—	709,268
Net change in fund balances	22,995	(28,322)	(16,233)	(6,863)	(348)	33,444	281	1,414	(6,947)	(270,426)	(385,217)	5,820	—	(650,402)
Fund balances (deficit) – beginning of year (as restated)(note 3)	71,029	258,147	109,692	43,063	110,897	(13,449)	77,464	(1,414)	15,241	204,776	569,776	39,408	—	1,484,630
Fund balances (deficit) – end of year	$ 94,024	229,825	93,459	36,200	110,549	19,995	77,745	—	8,294	(65,650)	184,559	45,228	—	834,228

See accompanying independent auditors' report.

Nonmajor Proprietary Funds

Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the government is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Disability Insurance – It was created by Act No. 139 on June 26, 1968. It is used to account for disability benefits to remedy temporarily the loss of income as a result of disability caused by sickness or accident unrelated to the employment.

Drivers' Insurance – It was created by Act No. 428 on May 15, 1950. It is used to account for contributions made by the drivers and their employers to provide a social security plan for the benefit of the drivers in Puerto Rico. The plan also includes payment of benefits for health and life insurance.

Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund – It was created by Act No. 32 on July 7, 1997. It is administered, pursuant to Act No. 9 of June 18, 1970, as amended, by the Puerto Rico Department of Health (DOH). Pursuant to such act, the DOH, on behalf of the Commonwealth, is authorized to enter into operating and capitalization grant agreements with the EPA for lending activities.

Governing Board of 9-1-1 Services (9-1-1 Service) – It was created by Act No. 144 on December 22, 1994. The 9-1-1 Service is responsible for providing an efficient service of fast response to emergency calls through the 9-1-1 number, and transferring these to the appropriate response agencies.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Net Position – Nonmajor Proprietary Funds

June 30, 2013

(In thousands)

	Business-Type Activities – Nonmajor Enterprise Funds				
	9-1-1 Service Governing Board	**Disability Insurance**	**Drivers' Insurance**	**Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund**	**Total**
Assets:					
Current assets:					
Cash and cash equivalents in commercial banks	$ —	35	79	—	114
Cash and cash equivalents in governmental banks	12,763	51,611	5,016	—	69,390
Insurance premiums receivables, net	—	2,657	1,093	—	3,750
Accrued interest receivable	—	68	—	—	68
Accounts Receivable	2,242	—	—	—	2,242
Other receivables	8	252	—	—	260
Due from other funds	—	—	5,000	—	5,000
Other assets	38	—	—	—	38
Investments	3,044	—	—	—	3,044
Restricted assets:					
Cash and cash equivalents in commercial banks	—	1,435	—	—	1,435
Cash and cash equivalents in governmental banks	7,848	—	—	28,350	36,198
Loans receivable from component unit	—	—	—	5,723	5,723
Receivables	—	—	—	1,492	1,492
Total current assets	25,943	56,058	11,188	35,565	128,754
Noncurrent assets:					
Loans receivable from component unit – restricted	—	—	—	148,687	148,687
Due from other funds	—	—	19,112	—	19,112
Restricted investments	9,136	35,145	—	—	44,281
Depreciable assets	4,916	151	—	—	5,067
Total assets	39,995	91,354	30,300	184,252	345,901
Liabilities and Net Position:					
Current liabilities:					
Accounts payable and accrued liabilities	2,115	681	184	270	3,250
Due to other funds	5,865	803	—	—	6,668
Due to other governmental entities	1,739	38	50	—	1,827
Deferred revenue		2,325	20	—	2,345
Compensated absences	711	455	291	—	1,457
Voluntary termination benefits payable	183	—	—	—	183
Insurance benefits payable		658	163	—	821
Total current liabilities	10,613	4,960	708	270	16,551
Noncurrent liabilities:					
Compensated absences	962	682	436	—	2,080
Voluntary termination benefits payable	715	—	—	—	715
Total liabilities	12,290	5,642	1,144	270	19,346
Net position:					
Net investment in capital assets	4,274	151	—	—	4,425
Restricted for lending activities		—	—	183,982	183,982
Restricted for payment of insurance benefits		35,923	—	—	35,923
Restricted for emergency services	9,993	—	—	—	9,993
Unrestricted	13,438	49,638	29,156	—	92,232
Total net position	$ 27,705	85,712	29,156	183,982	326,555

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Revenues, Expenses, and Changes in Net Position Nonmajor Proprietary Funds

Year ended June 30, 2013

(In thousands)

	Business-Type Activities – Nonmajor Enterprise Funds				
	9-1-1 Service Governing Board	Disability Insurance	Drivers' Insurance	Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund	Total
Operating revenues:					
Emergency telephone service charges	$ 20,573	—	—	—	20,573
Insurance premiums	—	12,130	4,356	—	16,486
Interest	—	—	—	2,955	2,955
Total operating revenues	20,573	12,130	4,356	2,955	40,014
Operating expenses:					
Insurance benefits	—	2,224	1,005	—	3,229
General, administrative, and other operating expenses	16,375	7,309	4,338	1,135	29,157
Total operating expenses	16,375	9,533	5,343	1,135	32,386
Operating income (loss)	4,198	2,597	(987)	1,820	7,628
Nonoperating revenues (expenses):					
Contributions from U.S. government	—	—	—	5,512	5,512
Interest and investment earnings	963	1,629	491	—	3,083
Total nonoperating revenues	963	1,629	491	5,512	8,595
Income (loss) before transfers	5,161	4,226	(496)	7,332	16,223
Transfers from other funds	—	—	—	927	927
Transfers to other funds	(18,265)	(4,582)	(68)	—	(22,915)
Net change in net position	(13,104)	(356)	(564)	8,259	(5,765)
Net position – beginning of year, as restated (see note 3 to the financial statement)	40,809	86,068	29,720	175,723	332,320
Net position – end of year	$ 27,705	85,712	29,156	183,982	326,555

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Cash Flows – Nonmajor Proprietary Funds

Year ended June 30, 2013

(In thousands)

	Business-Type Activities – Nonmajor Enterprise Funds				
	9-1-1 Service Governing Board	**Disability Insurance**	**Drivers' Insurance**	**Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund**	**Total**
Cash flows from operating activities:					
Receipts from customers and users	$ 32,230	12,820	4,419	—	49,469
Payments to suppliers and employees	(23,819)	(7,528)	(4,459)	(1,156)	(36,962)
Payments of insurance benefits	—	(2,279)	(963)	—	(3,242)
Net cash provided by (used in) operating activities	8,411	3,013	(1,003)	(1,156)	9,265
Cash flows from noncapital financing activities:					
Intergovernmental grants and contributions	—	—	—	5,597	5,597
Transfers from other funds	—	—	—	927	927
Transfers to other funds	(18,265)	(4,582)	(68)	—	(22,915)
Net cash provided by (used in) noncapital financing activities	(18,265)	(4,582)	(68)	6,524	(16,391)
Cash flows from capital and related financing activities – capital expenditures	(625)	(175)	—	—	(800)
Cash flows from investing activities:					
Interest collected on deposits, investments and loans	964	1,289	9	2,902	5,164
Loans originated	—	—	—	(14,057)	(14,057)
Issuance of long-term debt	—	—	(8,000)	—	(8,000)
Principal collected on loans	—	—	2,500	4,892	7,392
Proceeds from sales and maturities of investments	5,426	14,095	—	—	19,521
Purchases of investments	—	(14,358)	—	—	(14,358)
Net cash provided by (used in) investing activities	6,390	1,026	(5,491)	(6,263)	(4,338)
Net decrease in cash and cash equivalents	(4,089)	(718)	(6,562)	(895)	(12,264)
Cash and cash equivalents – beginning of year, as restated (see note 3 of the financial statement)	24,700	53,799	11,657	29,245	119,401
Cash and cash equivalents – end of year	$ 20,611	53,081	5,095	28,350	107,137
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	$ 4,198	2,597	(987)	1,820	7,628
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Interests earned on deposits, loans and investments	—	—	—	(2,954)	(2,954)
Depreciation	896	24	—	—	920
Provision for bad debts	19	—	—	—	19
Loss on disposition of capital assets	413	—	—	—	413
Changes in operating assets and liabilities:					
Decrease in accounts receivable	1,374	509	63	—	1,946
Decrease in other assets	8	—	—	—	8
Decrease in accounts payable and accrued liabilities	(60)	(2)	(64)	(22)	(148)
Increase in due to other governmental entities	1,192	18	23	—	1,233
Increase in deferred revenues	—	182	—	—	182
Increase (decrease) in compensated absences	252	(259)	(81)	—	(88)
Increase in termination benefits payable	119	—	—	—	119
Increase (decrease) in liability for insurance benefits payable	—	(56)	43	—	(13)
Total adjustments	4,213	416	(16)	(2,976)	1,637
Net cash provided by (used in) operating activities	$ 8,411	3,013	(1,003)	(1,156)	9,265

See accompanying independent auditors' report.

Fiduciary funds are used to account for funds held by the Commonwealth in a trustee capacity, or as an agent for individuals, organizations, and other governmental units. Following are the Commonwealth's fiduciary funds:

Pension Trust Funds

The pension trust funds are used to account for the assets, liabilities, and net assets available for pension benefits held in trust for the public employees of the Commonwealth.

Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) – ERS is a cost-sharing multiple-employer defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration and was created by Act No. 447 on May 15, 1951. The ERS is sponsored by the Commonwealth, public corporations, and municipalities of Puerto Rico. Substantially all full-time employees of the Commonwealth and its instrumentalities are covered by the ERS. All regular appointed and temporary employees of the Commonwealth become plan members at the date of employment. The ERS is administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration (the ERS and JRS Administration) that also administers the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution (ERS MIPC). The ERS MIPC is an unfunded, cost-sharing, multi-employer defined benefit other postemployment healthcare benefit plan provided by the Commonwealth to retired plan members.

Puerto Rico System of Annuities and Pensions for Teachers (TRS) – TRS is a cost-sharing multiple-employer defined benefit pension plan administered by the Puerto Rico Teachers Retirement System and was created by Act No. 91 of March 29, 2004, that superseded Act No. 218 of May 6, 1951. The TRS is sponsored by the Commonwealth. All active teachers of the Commonwealth's Department of Education are covered by the TRS. Licensed teachers working in private schools or other educational organizations have the option to become members of TRS at their own choice as long as the required employer and employee contributions are satisfied. The employees of the TRS are also plan members. The TRS is administered by the Puerto Rico Teachers Retirement System (the TRS Administration) that also administers the Puerto Rico System of Annuities and Pensions for Teachers Medical Insurance Plan Contribution (TRS MIPC), an unfunded, cost-sharing, multi-employer defined benefit other postemployment healthcare benefit plan provided by the Commonwealth to retired teachers of the Department of Education of the Commonwealth and retired employees of the TRS Administration.

Retirement System for the Judiciary of the Commonwealth of Puerto Rico (JRS) – JRS is a single-employer defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration and was created by Act No. 12 on October 19, 1954. The JRS is sponsored by the Commonwealth. All judges of the judiciary branch of the Commonwealth are plan members. The JRS provides retirement benefits to the employees of the judiciary branch of the Commonwealth, through the office of the Administration of Court Facilities. The JRS is administered by the ERS and JRS Administration that also administers the Retirement System for the Judiciary of the Commonwealth of Puerto Rico Medical Insurance Plan Contribution (JRS MIPC), an unfunded, single-employer defined benefit other postemployment healthcare benefit plan provided by the Commonwealth to retired judges of the Judiciary Branch of the Commonwealth.

COMMONWEALTH OF PUERTO RICO

Nonmajor Proprietary Funds

Year ended June 30, 2013

Agency Fund

Agency fund is used to account for assets held by the Commonwealth as an agent for individuals, private organizations, and other governments. This fund is custodial in nature (assets equal liabilities) and does not involve measurement of the results of operations.

Special Deposits – This fund acts in a fiduciary capacity in order to account for moneys received with specified purposes for which the law does not specify its recording in any other fund. It mainly includes deposits under the custody of the courts of justice for alimony payments, escrows, revenue collections and agency accounts for which the Commonwealth act in an agent's capacity.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Fiduciary Net Position – Pension Trust Funds

June 30, 2013

(In thousands)

	Pension Trust Funds						
	(ERS)		(TRS)		(JRS)		
	Pension	Postemployment healthcare benefits	Pension	Postemployment healthcare benefits	Pension	Postemployment healthcare benefits	Total
Assets:							
Cash and cash equivalents in commercial banks:							
Unrestricted	$ 222,225	—	59,183	—	1,663	—	283,071
Restricted	26,503	—	—	—	—	—	26,503
Cash and cash equivalents in governmental banks:							
Unrestricted	130,527	—	8,494	—	916	—	139,937
Restricted	35,811	—	—	—	—	—	35,811
Collateral from securities lending transactions	124,411	—	48,420	—	2,002	—	174,833
Investments at fair value:							
Bonds and notes	1,351,177	—	742,146	—	18,693	—	2,112,016
Nonexchange commingled trust funds	1,053,555	—	546,775	—	39,661	—	1,639,991
Stocks	75	—	97,299	—	—	—	97,374
Investments in limited partnerships	55,067	—	14,823	—	—	—	69,890
Receivables – net:							
Accounts	131,033	—	—	—	—	—	131,033
Loans and advances	791,161	—	411,032	—	436	—	1,202,629
Accrued interest and dividends	11,494	—	7,847	—	191	—	19,532
Other	19,028	—	23,471	—	27	—	42,526
Capital assets – net	8,594	—	19,312	—	—	—	27,906
Other assets	35,242	—	781	—	—	—	36,023
Total assets	3,995,903	—	1,979,583	—	63,589	—	6,039,075
Liabilities:							
Accounts payable and accrued liabilities	21,388	—	23,233	—	2,239	—	46,860
Securities lending obligations	124,411	—	48,420	—	2,002	—	174,833
Interest payable	13,876	—	—	—	—	—	13,876
Other liabilities	53,697	—	1,048	—	336	—	55,081
Bonds payable	3,051,189	—	—	—	—	—	3,051,189
Total liabilities	3,264,561	—	72,701	—	4,577	—	3,341,839
Net position – held in trust for pension benefits	$ 731,342	—	1,906,882	—	59,012	—	2,697,236

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Changes in Fiduciary Net Position – Pension Trust Funds

Year ended June 30, 2013

(In thousands)

	Pension Trust Funds						
	ERS		TRS		JRS		
	Pension	Postemployment healthcare benefits	Pension	Postemployment healthcare benefits	Pension	Postemployment healthcare benefits	Total
Additions:							
Contributions:							
Sponsor	$ 424,704	—	133,369	—	10,034	—	568,107
Participants	322,528	—	120,842	—	2,825	—	446,195
Special	203,943	91,823	54,075	34,239	1,368	291	385,739
Total contributions	951,175	91,823	308,286	34,239	14,227	291	1,400,041
Investment income and investment expense:							
Interest	127,377	—	71,457	—	948	—	199,782
Dividends	242	—	2,693	—	—	—	2,935
Net change in fair value of investments	120,956	—	86,573	—	5,796	—	213,325
Investment expenses	(3,553)	—	(3,229)		(72)		(6,854)
Net investment income	245,022	—	157,494	—	6,672	—	409,188
Other income	22,035	—	1,432	—	603	—	24,070
Total additions	1,218,232	91,823	467,212	34,239	21,502	291	1,833,299
Deductions:							
Pension and other benefits	1,430,712	91,823	628,274	34,239	20,453	291	2,205,792
Refunds of contributions	52,307	—	7,666	—	—	—	59,973
General and administrative	49,173	—	23,606	—	625	—	73,404
Interest on bonds payable	192,230	—	—	—	—	—	192,230
Total deductions	1,724,422	91,823	659,546	34,239	21,078	291	2,531,399
Net change in net position held in trust for pension benefits	(506,190)	—	(192,334)	—	424	—	(698,100)
Net position held in trust for pension benefits:							
Beginning of year	1,237,532	—	2,099,216	—	58,588	—	3,395,336
End of year	$ 731,342	—	1,906,882	—	59,012	—	2,697,236

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Combining Statement of Changes in Assets and Liabilities – Agency Funds

Year ended June 30, 2013

(In thousands)

Assets		Balance at June 30, 2012	Additions	Deletions	Balance at June 30, 2013
Cash and cash equivalents in commercial banks	$	698,972	457	33,185	666,244
Cash and cash equivalents in governmental banks		546,931	10,641,005	10,753,992	433,944
Other receivables		5,252	—	5,252	—
Total assets	$	1,251,155	10,641,462	10,792,429	1,100,188
Liabilities					
Accounts payable and accrued liabilities	$	1,251,155	10,641,462	10,792,429	1,100,188
Total liabilities	$	1,251,155	10,641,462	10,792,429	1,100,188

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Nonmajor Discretely Presented Component Units

Year ended June 30, 2013

These entities, all legally separate entities, consistent with GASB Statement No. 14, as amended by GASB Statements No. 39 and 61, are discretely presented in a separate column of the basic financial statements of the primary government principally because of the nature of the services they provide, the Commonwealth's ability to impose its will, principally through the appointment of their governing authorities, and because these component units provide specific financial benefits to, or impose financial burdens on, the Commonwealth (with the exception of Culebra Conservation and Development Authority, which does not meet all these criteria, but the Commonwealth has determined it would be misleading to exclude it from the Commonwealth's financial reporting entity). These entities have been classified as nonmajor component units because management believes they do not meet the following factors for inclusion as major: a) the services provided by the component unit to the citizenry are such that separate reporting as a major component unit is considered to be essential to financial statement users, b) there are significant transactions with the primary government, or c) there is a significant financial benefit or burden relationship with the primary government. The accounting principles followed by each of the component units included herein may vary depending on the type of industries they are involved in (that is, banking, construction, public utilities, and so forth). The detailed information for each of these entities may be obtained directly from the administrative offices of the corresponding entities, as described in note 1 to the basic financial statements included in the financial section of this report.

COMMONWEALTH OF PUERTO RICO
Nonmajor Discretely Presented Component Units
Combining Statement of Net Position
June 30, 2013
(In thousands)

	Agricultural Enterprises Development Administration	Automobile Accidents Compensation Administration	Cardiovascular Center Corporation of Puerto Rico and the Caribbean	Company for the Integral Development of the "Península de Cantera"	Corporation for the "Caño Martín Peña" ENLACE Project	Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico
Assets:						
Cash and cash equivalents in commercial banks	$ 28,479	12,261	9,394	1,543	40	915
Cash and cash equivalents in governmental banks	13,204	—	—	—	—	—
Investments	300	156,512	—	—	—	865
Collateral from securities lending transactions	—	—	—	—	—	—
Receivables – net:						
Insurance premiums	—	748	—	—	—	—
Intergovernmental	—	—	—	—	—	—
Accounts	12,937	—	5,143	—	—	31
Loans and advances	—	—	—	5,970	—	564
Accrued interest	—	663	—	—	—	—
Other governmental entities	3,158	412	1,225	536	967	593
Other	665	489	—	23	—	—
Due from:						
Primary government	28,442	—	—	30,733	—	—
Component units	—	—	1,616	—	—	—
Inventories	5,802	—	2,481	—	—	—
Prepaid expenses	976	—	908	48	—	—
Restricted assets:						
Cash and cash equivalents in commercial banks	—	9	102	—	102	—
Cash and cash equivalents in governmental banks	—	—	—	—	—	11,172
Investments		—	—	—	—	—
Other restricted assets	—	—	—	497	—	—
Deferred issue cost	—	—	—	—	—	—
Deferred expenses and other assets	—	36	—	—	—	—
Real estate held for sale or future development	—	—	—	847	—	—
Capital assets, not being depreciated	3,739	1,026	103	80	3,774	—
Capital assets, depreciable – net	24,406	4,527	16,724	64	1,454	—
Total assets	122,108	176,683	37,696	40,341	6,337	14,140
Liabilities and Deferred Inflows of Resources:						
Liabilities:						
Accounts payable and accrued liabilities	58,239	4,848	29,319	1,569	270	200
Deposits and escrow liabilities	—	—	—	—	—	—
Due to:						
Primary government	—	—	14,745	—	—	—
Component units	110,004	—	18,950	31,888	—	—
Other governmental entities	—	329	1,064	—	—	323
Securities lending obligations and reverse repurchase agreements	—	—	—	—	—	—
Interest payable	—	—	—	—	—	—
Deferred revenue	—	37,813	—	—	—	—
Liability for automobile accident insurance workmen compensation and medical claims	—	104,912	—	—	—	—
Liabilities payable within one year:						
Notes payable	19,399	—	—	—	—	—
Bonds payable	—	—	—	—	—	—
Accrued compensated absences	2,339	3,292	3,395	55	66	162
Voluntary termination benefits payable	2,423	—	—	—	—	—
Capital leases	—	—	—	—	—	—
Other long-term liabilities	—	—	1,191	—	—	—
Liabilities payable after one year						
Notes payable	—	—	—	—	—	—
Commonwealth appropriation bonds	—	—	—	—	—	—
Bonds payable	—	—	—	—	—	—
Accrued compensated absences	2,583	—	—	—	21	—
Voluntary termination benefits payable	24,138	—	—	—	—	—
Capital leases	—	—	—	—	—	—
Other long-term liabilities	—	5,397	5,305	—	—	—
Total liabilities	219,125	156,591	73,969	33,512	357	685
Deferred inflows of resources:						
Deferred inflows of resources - Service concession arrangements	—	—	—	—	—	—
Total liabilities and deferred inflows of resources	219,125	156,591	73,969	33,512	357	685
Net Position:						
Net Investment in capital assets	28,145	5,553	16,827	144	5,228	—
Restricted for:						
Trust – nonexpendable	—	—	—	—	—	—
Capital projects	183,652	—	—	—	—	—
Debt service	—	—	—	—	—	—
Student loans and other educational purpose	—	—	—	—	—	
Other specified purposes	—	—	102	497	102	14,707
Unrestricted (deficit)	(308,814)	14,539	(53,202)	6,188	650	(1,252)
Total net position	$ (97,017)	20,092	(36,273)	6,829	5,980	13,455

(Continued)

COMMONWEALTH OF PUERTO RICO
Nonmajor Discretely Presented Component Units
Combining Statement of Net Position
June 30, 2013
(In thousands)

		Corporation of Industries for the Blind Mentally Retarded Incapacitated Persons of Puerto Rico	Culebra Conservation and Development Authority	Economic Development Bank for Puerto Rico	Employment and Training Enterprises Coporation	Farm Insurance Corporation of Puerto Rico	Fine Arts Center Corporation
Assets:							
Cash and cash equivalents in commercial banks	$	108	68	2,992	1	6,120	3,252
Cash and cash equivalents in governmental banks		420	—	1,323	641	—	—
Investments		—	—	989,162	—	—	—
Collateral from securities lending transactions		—	—	—	—	—	—
Receivables – net:							
Insurance premiums		—	—	—	—	—	—
Intergovernmental		—	—	—	—	—	—
Accounts		165	2	—	—	—	193
Loans and advances		—	—	260,334	—	—	—
Accrued interest		—	—	9,281	—	—	—
Other governmental entities		—	—	66	168	3,234	107
Other		—	—	—	—	—	—
Due from:							
Primary government		—	—	—	—	—	—
Component units		—	—	—	—	7,719	—
Inventories		170	—	—	151	—	—
Prepaid expenses		3	—	—	—	10	99
Restricted assets:							
Cash and cash equivalents in commercial banks		—	5	1,251	—	—	—
Cash and cash equivalents in governmental banks		433	—	—	—	—	—
Investments		—	—	—	—	—	—
Other restricted assets		—	—	13,439	—	—	—
Deferred issue cost		—	—	117	—	—	—
Deferred expenses and other assets		—	—	8,311	—	—	—
Real estate held for sale or future development		—	—	—	—	—	—
Capital assets, not being depreciated		—	640	2,735	—	—	3,164
Capital assets, depreciable – net		277	284	6,157	41	212	15,103
Total assets		1,576	999	1,295,168	1,002	17,295	21,918
Liabilities and Deferred Inflow of Resources:							
Liabilities:							
Accounts payable and accrued liabilities		304	60	2,732	686	446	478
Deposits and escrow liabilities		—	—	330,318	—	—	252
Due to:							
Primary government		—	—	—	—	—	—
Component units		—	—	9,422	—	4,992	—
Other governmental entities		308	—	—	—	—	—
Securities lending obligations and reverse repurchase agreements		—	—	76,200	—	—	—
Interest payable		—	—	7,043	—	—	—
Deferred revenue		364	2	—	—	4,081	
Liability for automobile accident insurance workmen compensation and medical claims		—	—	—	—	—	—
Liabilities payable within one year							
Notes payable		—	—	—	—	—	—
Bonds payable		—	—	—	—	—	—
Accrued compensated absences		—	20	—	285	590	269
Voluntary termination benefits payable		—	14	—	—	—	250
Capital leases		—	1	—	—	—	—
Other long-term liabilities		—	—	—	1,936	—	—
Liabilities payable after one year							
Notes payable		—	—	703,048	—	—	—
Commonwealth appropriation bonds		—	—	—	—	—	—
Bonds payable		—	—	—	—	—	—
Accrued compensated absences		—	57	2,013	—	—	266
Voluntary termination benefits payable		—	133	—	—	—	2,589
Capital leases		—	3	—	—	—	—
Other long-term liabilities		—	—	4,310	—	—	—
Total liabilities		976	290	1,135,086	2,907	10,109	4,104
Deferred inflows of resources:							
Deferred inflows of resources - Service concession arrangements		—	—	—	—	—	—
Total liabilities and deferred inflows of resources		976	290	1,135,086	2,907	10,109	4,104
Net Position:							
Net Investment in capital assets		277	924	(530)	41	212	17,696
Restricted for:							
Trust – nonexpendable		—	—	—	—	—	—
Capital projects		—	—	—	—	—	—
Debt service		—	—	—	—	—	—
Student loans and other educational purpose		—					—
Other specified purposes		—	6	13,259	—	—	—
Unrestricted (deficit)		323	(221)	147,353	(1,946)	6,974	118
Total net position	$	600	709	160,082	(1,905)	7,186	17,814

(Continued)

COMMONWEALTH OF PUERTO RICO
Nonmajor Discretely Presented Component Units
Combining Statement of Net Position
June 30, 2013
(In thousands)

	Institute of Puerto Rican Culture	Institutional Trust of the National Guard of Puerto Rico	Land Authority of Puerto Rico	Local Redevelopment Authority for Roosevelt Roads Puerto Rico	Musical Arts Corporation	National Parks Company of Puerto Rico	Port of the Americas Authority
Assets:							
Cash and cash equivalents in commercial banks	$ 13,494	656	921	—	1,974	174	—
Cash and cash equivalents in governmental bank	1,969	1,017	32,437	83	641	583	285
Investments	—	—	—	—	—	—	—
Collateral from securities lending transaction	—	—	—	—	—	—	—
Receivables – net:							
Insurance premiums	—	—	—	—	—	—	—
Intergovernmental	335	—	—	—	—	—	—
Accounts	775	1,401	14,470	213	47	325	2
Loans and advances	—	—	—	—	—	—	—
Accrued interest	—	408	—	—	—	—	—
Other governmental entities	—	19	6,344	—	75	229	—
Other	—	154	—	—	—	—	—
Due from:							
Primary government	—	—	8,696	—	—	8,805	—
Component units	—	—	14,671	—	—	—	—
Inventories	1,936	—	—	—	—	—	—
Prepaid expenses	—	91	121	558	—	95	2
Restricted assets:							
Cash and cash equivalents in commercial bank	—	—	—	313	115	161	—
Cash and cash equivalents in governmental bank	—	—	—	—	412	11,364	—
Investments	—	50,521	—	—	—	—	—
Other restricted assets	—	—	—	—	—	—	—
Deferred issue cost	—	—	—	—	—	—	—
Deferred expenses and other assets	—	—	7,810	—	—	—	—
Real estate held for sale or future development	—	—	—	—	—	—	—
Capital assets, not being depreciated	1,276	19,752	88,198	16,545	568	20,503	339,812
Capital assets, depreciable – net	57,126	12,591	9,342	6	166	143,113	—
Total assets	76,911	86,610	183,010	17,718	3,998	185,352	340,101
Liabilities and Deferred Inflows of Resources							
Liabilities							
Accounts payable and accrued liabilitie	2,950	1,638	15,779	1,282	408	1,202	11,922
Deposits and escrow liabilities	—	—	10,959	—	—	—	—
Due to:							
Primary government	—	—	—	—	—	13,322	—
Component units	3,276	—	41,172	—	—	13,953	220,392
Other governmental entities	—	—	113	16,345	347	648	—
Securities lending obligations and reverse repurchase agreements	—	—	—	—	—	—	—
Interest payable	—	—	784	—	—	261	14,100
Deferred revenue	—	—	—	—	573	211	—
Liability for automobile accident insurance workmen compensation and medical claim	—	—	—	—	—	—	—
Liabilities payable within one year							
Notes payable	—	—	—	—	—	—	—
Bonds payable	—	—	—	—	—	—	—
Accrued compensated absences	92	53	985	52	484	237	7
Voluntary termination benefits payable	619	—	—	—	876	—	—
Capital leases	—	—	—	—	—	—	—
Other long-term liabilities	—	—	2,920	—	—	—	—
Liabilities payable after one year:							
Notes payable	—	—	—	—	—	—	—
Commonwealth appropriation bonds	—	—	56,276	—	—	—	—
Bonds payable	—	—	—	—	—	—	—
Accrued compensated absences	1,457	—	862	—	250	4,513	—
Voluntary termination benefits payable	5,137	—	—	—	—	12,695	—
Capital leases	—	—	—	—	—	—	—
Other long-term liabilities	—	—	38,227	—	5,781	2,621	—
Total liabilities	13,531	1,691	168,077	17,679	8,719	49,663	246,421
Deferred inflows of resources:							
Deferred inflows of resources - Service concession arrangements	—	—	—	—	—	—	—
Total liabilities and deferred inflows of resources	13,531	1,691	168,077	17,679	8,719	49,663	246,421
Net Position:							
Net Investment in capital assets	55,127	32,343	97,540	205	735	157,775	93,400
Restricted for:							
Trust – nonexpendable	—	—	—	—	—	—	—
Capital projects		—	—		—	10,702	—
Debt service	—	—	—	—	—	—	—
Student loans and other educational purpose	—		—	—	—	—	—
Other specified purposes	—	48,068	—	—	526	—	—
Unrestricted (deficit)	8,253	4,508	(82,607)	(166)	(5,982)	(32,788)	280
Total net position	$ 63,380	84,919	14,933	39	(4,721)	135,689	93,680

(Continued)

COMMONWEALTH OF PUERTO RICO

Nonmajor Discretely Presented Component Units

Combining Statement of Net Position

June 30, 2013

(In thousands)

	Public Corporation for the Supervision and Deposit Insurance of P.R. Cooperatives	Puerto Rico Conservatory of Music Corporation	Puerto Rico Convention Center District Authority	Puerto Rico Council on Education	Puerto Rico Industrial Development Company	Puerto Rico Industrial, Tourist, Educational, Medical and Environmental, Control Facilities Financing Authority
Assets:						
Cash and cash equivalents in commercial banks	$ 2,912	53	18,590	40	3,341	—
Cash and cash equivalents in governmental bank	116	—	895	1,918	14,475	9,554
Investments	217,503	—	—	—	4,093	—
Collateral from securities lending transaction	—	—	—	—	—	—
Receivables – net:						
Insurance premiums	—	—	—	—	—	—
Intergovernmental	—	—	—	—	—	—
Accounts	—	—	12,287	—	23,560	—
Loans and advances	3,300	—	1,718	—	77	—
Accrued interest	1,950	—	—	—	—	1
Other governmental entities	—	375	—	41	—	—
Other	320	1,242	3,714	700	—	—
Due from:						
Primary government	—	—	—	—	—	—
Component units	—	—	4,178	—	—	—
Inventories	—	—	—	—	—	—
Prepaid expenses	—	4	1,549	—	2,388	—
Restricted assets:						
Cash and cash equivalents in commercial bank	—	1,117	—	—	—	—
Cash and cash equivalents in governmental bank	—	—	1,077	2,308	—	—
Investments	—	—	57,330	5,460	31,511	—
Other restricted assets	—	—	—	—	—	—
Deferred issue cost	—	—	13,076	—	1,594	—
Deferred expenses and other assets	—	—	—	—	—	—
Real estate held for sale or future development	—	—	—	—	—	—
Capital assets, not being depreciated	35	5,157	284,647	—	242,151	—
Capital assets, depreciable – net	3,027	80,284	416,585	218	425,199	—
Total assets	229,163	88,232	815,646	10,685	748,389	9,555
Liabilities and Deferred Inflows of Resources						
Liabilities:						
Accounts payable and accrued liabilitie	28,730	3,334	4,399	1,337	17,915	72
Deposits and escrow liabilities	—	—	5,462	—	8,689	—
Due to:						
Primary government	—	—	—	—	7,737	—
Component units	—	1,398	151,504	—	88,631	—
Other governmental entities	712	74	665	—	—	—
Securities lending obligations and reverse repurchase agreements	—	—	—	—	—	—
Interest payable	—	—	10,331	—	4,084	—
Deferred revenue	—	846	8,356	—	—	—
Liability for automobile accident insurance workmen compensation and medical claim	—	—	—	—	—	—
Liabilities payable within one year						
Notes payable	—	—	—	—	7,044	—
Bonds payable	—	—	9,845	—	8,305	—
Accrued compensated absences	1,870	219	120	99	5,774	—
Voluntary termination benefits payable	—	—	—	115	966	—
Capital leases	—	—	—	—	88	—
Other long-term liabilities	—	3,506	—	—	—	—
Liabilities payable after one year						
Notes payable	—	—	—	—	79,114	—
Commonwealth appropriation bonds	—	—	—	—	—	—
Bonds payable	—	—	426,237	—	188,864	—
Accrued compensated absences	—	613	—	665	—	—
Voluntary termination benefits payable	711	159	—	1,488	8,739	—
Capital leases	—	—	—	—	137	—
Other long-term liabilities	—	—	—	—	6,929	—
Total liabilities	32,023	10,149	616,919	3,704	433,016	72
Deferred inflows of resources:						
Deferred inflows of resources - Service concession arrangements	—	—	—	—	—	—
Total liabilities and deferred inflows of resources	32,023	10,149	616,919	3,704	433,016	72
Net Position:						
Net Investment in capital assets	3,062	80,829	128,221	218	400,294	—
Restricted for:						
Trust – nonexpendable	—	—	—	—	—	—
Capital projects	—	—				
Debt service	—	—	48,162	—	20,810	—
Student loans and other educational purpose	—	1,401	—	6,905	—	—
Other specified purposes	81,689	—	—	—	—	—
Unrestricted (deficit)	112,389	(4,147)	22,344	(142)	(105,731)	9,483
Total net position	$ 197,140	78,083	198,727	6,981	315,373	9,483

(Continued)

COMMONWEALTH OF PUERTO RICO
Nonmajor Discretely Presented Component Units
Combining Statement of Net Position
June 30, 2013
(In thousands)

	Puerto Rico Public Private Partnerships Authority	Puerto Rico School of Plastic Arts	Puerto Rico Telephone Authority	Puerto Rico Tourism Company	Puerto Rico Trade and Export Company	Solid Waste Authority
Assets:						
Cash and cash equivalents in commercial banks	$ —	10	—	5,684	8,838	269
Cash and cash equivalents in governmental banks	3,982	67	1,497	8,769	4,748	3,390
Investments	—	—	—	41,845	—	18,351
Collateral from securities lending transactions	—	—	—	—	—	—
Receivables – net:						
Insurance premiums	—	—	—	—	—	—
Intergovernmental	—	—	—	—	—	—
Accounts	—	84	—	10,287	1,685	—
Loans and advances	—	—	—	1,365	—	—
Accrued interest	—	—	1	—	5,292	—
Other governmental entities	737	—	—	—	—	1,637
Other	—	—	—	680	—	619
Due from:						
Primary government	—	—	—	2,315	—	—
Component units	—	—	—	—	—	—
Inventories	—	—	—	—	—	—
Prepaid expenses	—	—	—	70	105	—
Restricted assets:						
Cash and cash equivalents in commercial banks	—	2	—	—	5,472	—
Cash and cash equivalents in governmental banks	—	469	10,556	—	704	10,900
Investments	—	1,886	—	—	356,266	—
Other restricted assets	—	—	—	—	—	—
Deferred issue cost	—	—	—	414	—	72
Deferred expenses and other assets	15	—	—	—	—	16
Real estate held for sale or future development	—	—	—	—	—	—
Capital assets, not being depreciated	—	—	—	12,543	60,275	21,711
Capital assets, depreciable – net	1	7,634	—	19,520	54,169	103,277
Total assets	4,735	10,152	12,054	103,492	497,554	160,242
Liabilities and Deferred Inflow of Resources						
Liabilities:						
Accounts payable and accrued liabilities	1,339	332	5	30,181	3,560	2,420
Deposits and escrow liabilities	—	—	—	—	—	—
Due to:						
Primary government	—	—	—	8,337	2,859	—
Component units	—	—	—	11,464	1,344	84,205
Other governmental entities	—	—	—	—	—	1,083
Securities lending obligations and reverse repurchase agreements	—	—	—	—	—	—
Interest payable	—	—	—	899	4,932	43
Deferred revenue	—	—	—	7,504	—	—
Liability for automobile accident insurance, workmen compensation and medical claims	—	—	—	—	—	—
Liabilities payable within one year:						
Notes payable	—	—	—	16,114	520	—
Bonds payable	—	—	—	—	—	—
Accrued compensated absences	11	173	—	772	525	304
Voluntary termination benefits payable	—	72	—	593	231	432
Capital leases	—	—	—	66	55	—
Other long-term liabilities	—	—	—	—	—	—
Liabilities payable after one year:						
Notes payable	—	—	—	—	370,892	—
Commonwealth appropriation bonds	—	—	—	43,562	—	7,829
Bonds payable	—	—	—	—	—	—
Accrued compensated absences	—	295	—	6,062	1,378	387
Voluntary termination benefits payable	—	370	—	6,713	2,704	5,320
Capital leases	—	—	—	—	150	—
Other long-term liabilities	—	—	6,759	561	3,013	—
Total liabilities	1,350	1,242	6,764	132,828	392,163	102,023
Deferred inflows of resources:						
Deferred inflows of resources - Service concession arrangements	—	—	—	—	—	—
Total liabilities and deferred inflows of resources	1,350	1,242	6,764	132,828	392,163	102,023
Net Position:						
Net Investment in capital assets	1	7,634	—	31,996	99,094	50,810
Restricted for:						
Trust – nonexpendable			—	—	—	
Capital projects	—	—				—
Debt service	—	—	—	3,718	—	—
Student loans and other educational purpose	—	1,886	—	—	—	—
Other specified purposes	—	—	3,802	—	3,266	1,653
Unrestricted (deficit)	3,384	(610)	1,488	(65,050)	3,031	5,756
Total net position	$ 3,385	8,910	5,290	(29,336)	105,391	58,219

(Continued)

COMMONWEALTH OF PUERTO RICO
Nonmajor Discretely Presented Component Units
Combining Statement of Net Position
June 30, 2013
(In thousands)

		Puerto Rico Land Administration	Puerto Rico and Municipal Islands Maritime Transport Authority	Puerto Rico Metropolitan Bus Authority	Puerto Rico Municipal Finance Agency	Puerto Rico Ports Authority	Puerto Rico Public Broadcasting Corporation
Assets:							
Cash and cash equivalents in commercial banks	$	703	296	2,128	—	2,583	375
Cash and cash equivalents in governmental banks		36,300	—	68	2,847	3,824	—
Investments		10,915	—	—	—	—	—
Collateral from securities lending transactions		—	—	—	—	—	—
Receivables – net:							
Insurance premiums		—	—	—	—	—	—
Intergovernmental		—	83	1,804	—	—	—
Accounts		740	197	—	—	40,298	229
Loans and advances		—	—	—	—	—	—
Accrued interest		584	—	—	—	—	—
Other governmental entities		46	155	420	—	—	1,009
Other		—	—	—	—	—	23
Due from:							
Primary government		—	—	1,023	—	16,500	—
Component units		1,306	—	3,095	—	43,127	—
Inventories		—	129	3,517	—	—	—
Prepaid expenses		381	2,019	1,668	43	3,884	—
Restricted assets:							
Cash and cash equivalents in commercial banks		—	—	—	7,659	10,737	1,475
Cash and cash equivalents in governmental banks		733	—	—	—	98,025	—
Investments		—	—	—	1,013,128	—	—
Other restricted assets		—	—	—	23,122	25,351	—
Deferred issue cost		—	—	—	10,131	3,199	—
Deferred expenses and other assets		—	—	542	—	—	137
Real estate held for sale or future development		161,072	—	—	—	—	—
Capital assets, not being depreciated		30,403	25,676	2,526	—	427,020	83
Capital assets, depreciable – net		8,686	43,900	42,223		710,513	13,971
Total assets		251,869	72,455	59,014	1,056,930	1,385,061	17,302
Liabilities and Deferred Inflow of Resources:							
Liabilities:							
Accounts payable and accrued liabilities		973	16,779	16,536	560	79,618	2,097
Deposits and escrow liabilities		34,046	—	—	55,099	1,399	—
Due to:							
Primary government		1,203	1,150	12,621	—	25,804	—
Component units		—	40,279	7,634	—	255,274	—
Other governmental entities		1,518	30,076	8,506	3,521	1,832	486
Securities lending obligations and reverse repurchase agreements		—	—	—	—	—	—
Interest payable		—	—	—	19,161	1,540	—
Deferred revenue		5,646	7,223	2,238	—	1,858	—
Liability for automobile accident insurance, workmen compensation and medical claims		—	—	—	—	—	—
Liabilities payable within one year:							
Notes payable		—	—	2,503	—	6,789	—
Bonds payable		—	—	—	101,580	—	—
Accrued compensated absences		737	1,288	4,224	—	—	885
Voluntary termination benefits payable		456	349	1,041	—	2,512	424
Capital leases		—	—	—	—	—	—
Other long-term liabilities		—	—	—	—	—	—
Liabilities payable after one year:							
Notes payable		—	—	32,042	—	11,784	—
Commonwealth appropriation bonds		—	—	—	—	—	—
Bonds payable		—	—	—	806,952	214,892	—
Accrued compensated absences		—	—	1,277	—	—	1,344
Voluntary termination benefits payable		3,263	3,795	8,029	—	22,546	4,279
Capital leases		—	—	—	—	—	—
Other long-term liabilities		—	—	4,337	—	6,481	—
Total liabilities		47,842	100,939	100,988	986,873	632,329	9,515
Deferred inflows of resources:							
Deferred inflows of resources - Service concession arrangements		—	—	—	—	619,416	—
Total liabilities and deferred inflows of resources		47,842	100,939	100,988	986,873	1,251,745	9,515
Net Position:							
Net Investment in capital assets		8,686	69,576	44,749	—	149,179	14,054
Restricted for:							
Trust – nonexpendable		—	—	—	—		
Capital projects						41,318	—
Debt service		—	—	—	122,826	2,790	—
Student loans and other educational purpose		—	—	—	—	—	—
Other specified purposes		733	—	—	—	3,288	1,346
Unrestricted (deficit)		194,608	(98,060)	(86,723)	(52,769)	(63,259)	(7,613)
Total net position	$	204,027	(28,484)	(41,974)	70,057	133,316	7,787

(Continued)

COMMONWEALTH OF PUERTO RICO
Nonmajor Discretely Presented Component Units
Combining Statement of Net Position
June 30, 2013
(In thousands)

	State Insurance Fund Corporation	University of Puerto Rico Comprehensive Cancer Center	Nonmajor Component Units Total
Assets:			
Cash and cash equivalents in commercial banks	$ 66,360	3,575	198,149
Cash and cash equivalents in governmental banks	23,123	1,454	169,630
Investments	1,164,145	—	2,603,691
Collateral from securities lending transactions	102,689	—	102,689
Receivables – net:			
Insurance premiums	39,794	—	40,542
Intergovernmental	—	—	2,222
Accounts	—	—	125,071
Loans and advances	—	—	273,328
Accrued interest	7,503	—	25,683
Other governmental entities	8,005	532	30,090
Other	16,587	—	25,216
Due from:			
Primary government	—	2,000	98,514
Component units	12,140	13,618	101,470
Inventories	3,557	—	17,743
Prepaid expenses	53	371	15,446
Restricted assets:			
Cash and cash equivalents in commercial banks	—	69	28,589
Cash and cash equivalents in governmental banks	—	51	148,204
Investments	314,600	—	1,830,702
Other restricted assets	—	—	62,409
Deferred issue cost	—	—	28,603
Deferred expenses and other assets	—	—	16,867
Real estate held for sale or future development	—	—	161,919
Capital assets, not being depreciated	18,532	8,560	1,641,234
Capital assets, depreciable – net	85,030	21,515	2,327,345
Total assets	1,862,118	51,745	10,075,356
Liabilities and Deferred Inflow of Resources:			
Liabilities:			
Accounts payable and accrued liabilities	150,862	1,496	496,877
Deposits and escrow liabilities	—	—	446,224
Due to:			
Primary government	—	—	87,778
Component units	3,713	33,125	1,132,620
Other governmental entities	—	724	68,674
Securities lending obligations and reverse repurchase agreements	102,689	—	178,889
Interest payable	—	—	63,178
Deferred revenue	21,858	—	98,573
Liability for automobile accident insurance workmen compensation and medical claims	820,934	—	925,846
Liabilities payable within one year			
Notes payable	21,160	—	73,529
Bonds payable	—	—	119,730
Accrued compensated absences	11,128	362	40,874
Voluntary termination benefits payable	—	—	11,373
Capital leases	691	—	901
Other long-term liabilities	—	—	9,553
Liabilities payable after one year:			
Notes payable	254,002	—	1,450,882
Commonwealth appropriation bonds	—	—	107,667
Bonds payable	—	—	1,636,945
Accrued compensated absences	35,282	—	59,325
Voluntary termination benefits payable	—	—	112,808
Capital leases	29,280	—	29,570
Other long-term liabilities	73,418	—	163,139
Total liabilities	1,525,017	35,707	7,314,955
Deferred inflows of resources:			
Deferred inflows of resources - Service concession arrangements	—	—	619,416
Total liabilities and deferred inflows of resources	1,525,017	35,707	7,934,371
Net Position:			
Net Investment in capital assets	40,428	10,024	1,650,497
Restricted for:			
Trust – nonexpendable			
Capital projects	—	121	235,793
Debt service	72,600	—	270,906
Student loans and other educational purpose	—	—	10,192
Other specified purposes	—	—	173,044
Unrestricted (deficit)	224,073	5,893	(199,447)
Total net position	$ 337,101	16,038	2,140,985

Note: See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Nonmajor Discretely Presented Component Units

Combining Statement of Activities

Year ended June 30, 2013

(In thousands)

		Program revenues				General revenues and transfers								
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Net revenues (expenses) and changes in net position	Payments from (to) primary government	Payments from (to) other component units	Grants and contributions not restricted to specific programs	Excise taxes	Interest and investment earnings	Other	Change in net position	Net position beginning of year, as restated (see note 3 of the financial statement)	Net position end of year
Agricultural Enterprises Development Administration	$ 182,300	99,170	—	—	(83,130)	88,725	—	—	—	35	11,128	16,758	(113,775)	(97,017)
Automobile Accidents Compensation Administratic	83,789	85,296	—	—	1,507	(13,696)	—	—	—	14,541	—	2,352	17,740	20,092
Cardiovascular Center Corporation of Puerto Rico an the Caribbean	89,100	81,193	—	—	(7,907)	14,478	—	—	—	55	—	6,626	(42,899)	(36,273)
Company for the Integral Development of the "Península de Cantera"	9,211	—	10,733	—	1,522	—	—	90	—	66	—	1,678	5,151	6,829
												—		
Corporation of Industries for the Blind and Mentally Retarded and Incapacitated Persons of Pueto Ric	726	256	—	—	(470)	505	—	—	—	—	—	35	565	600
Corporation for the "Caño Martin Peña" Enlace Projec	4,437		87		(4,350)	4,118				2	47	(183)	6,163	5,980
												—		
Corporation for the Development of the Arts, Scienc and Film Industry of Puerto Ric	2,520	468	—	—	(2,052)	3,599	—	—	—	—	16	1,563	11,892	13,455
Culebra Conservation and Development Authorit	664	258	—	—	(406)	349	—	—	—	—	—	(57)	766	709
Economic Development Bank for Puerto Ric	68,794	67,830	—	2,458	1,494	—	—	—	—	363	712	2,569	157,513	160,082
Employment and Training Enterprises Corporatio	3,188	2,071	—	—	(1,117)	361	—	—	—	—	132	(624)	(1,281)	(1,905)
Farm Insurance Corporation of Puerto Ric	3,462	2,390	1,097	—	25	—	—	—	—	56	—	81	7,105	7,186
Fine Arts Center Corporatior	8,840	1,977	—	—	(6,863)	4,216	—	—	—	30	—	(2,617)	20,431	17,814
Institute of Puerto Rican Cultur	24,395	—	—	—	(24,395)	19,326	—	—	—	—	—	(5,069)	68,449	63,380
Institutional Trust of the National Guard of Puert Rico	8,719	4,830	—	—	(3,889)	—	—	—	—	—	—	(3,889)	88,808	84,919
Land Authority of Puerto Ric	25,749	8,682	—	—	(17,067)	14,755	—	—	—	12	680	(1,620)	16,553	14,933
Local Redevelopment Authority Roosevelt Roa Puerto Rico	3,373	451	934	—	(1,988)	900	—	—	—	—	—	(1,088)	1,127	39
Musical Arts Corporatior	8,315	540	—	—	(7,775)	7,303	—	—	—	165	172	(135)	(4,586)	(4,721)
National Parks Company of Puerto Ric	36,066	8,985	—	564	(26,517)	29,042	—	—	—	77	39	2,641	133,048	135,689
Port of the Americas Authority	751	—	—	—	(751)	17,117	—	—	—	39	—	16,405	77,275	93,680
												—		
Public Corporation for the Supervision and Depos Insurance of Puerto Rico Cooperative	12,660	22,182	2,473	—	11,995	—	—	—	—	(386)	—	11,609	185,531	197,140
Puerto Rico and Municipal Islands Transpor Authority	55,168	5,859	211	1,492	(47,606)	29,777	—	—	—		—	(17,829)	(10,655)	(28,484)
Puerto Rico Conservatory of Music Corporatio	13,575	2,882	—	24	(10,669)	8,635	—	2,604	—	2	24	596	77,487	78,083
Puerto Rico Convention Center District Authorit	77,675	25,500	—	—	(52,175)	12,105	34,555	—	—	291	4,193	(1,031)	199,758	198,727
Puerto Rico Council on Educatior	33,460	524	3,009	—	(29,927)	28,761	—	—	—	25	40	(1,101)	8,082	6,981
Puerto Rico Industrial Development Compan	85,522	62,763	—	16,136	(6,623)	—	—	—	—	364	5,426	(833)	316,206	315,373
												—		
Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financin Authority	324	409	—	—	85	—	—	—	—	10	—	95	9,388	9,483
Puerto Rico Land Administratio	13,573	15,338	—	—	1,765	—	—	—	—	225	—	1,990	202,037	204,027
Puerto Rico Metropolitan Bus Authorit	87,574	5,761	13,487	—	(68,326)	52,913	—	—	—	16	—	(15,397)	(26,577)	(41,974)
Puerto Rico Municipal Finance Agenc	45,135	—	—	—	(45,135)	—	—	—	—	45,606	—	471	69,586	70,057
Puerto Rico Ports Authority	261,161	152,296	23,712	—	(85,153)	6,942	4,000	—	—	89	718	(73,404)	206,720	133,316
Puerto Rico Public Broadcasting Corporatio	25,442	4,122	—	—	(21,320)	16,368	—	2,859	—	2	297	(1,794)	9,581	7,787
Puerto Rico Public Private Partnerships Authorit	9,597	16,868	—	—	7,271	2,728	—	—	—	2	—	10,001	(6,616)	3,385
Puerto Rico School of Plastic Art	6,214	806	1,792	—	(3,616)	2,319	—	—	—	225	—	(1,072)	9,982	8,910
Puerto Rico Telephone Authorit	159	—	—	—	(159)	—	—	—	—	12	610	463	4,827	5,290
Puerto Rico Tourism Compan	125,091	168,056	—	—	42,965	(21,538)	(106,387)	—	65,642	376	5,085	(13,857)	(15,479)	(29,336)
Puerto Rico Trade and Export Compan	39,062	17,348	—	—	(21,714)	—	—	—	—	18,074	258	(3,382)	108,773	105,391
Solid Waste Authority	28,406	2,330	—	—	(26,076)	13,939	—	—	—	1	9	(12,127)	70,346	58,219
State Insurance Fund Corporatior	642,094	651,380	—	—	9,286	(67,802)	—	—	—	64,252	—	5,736	331,365	337,101
University of Puerto Rico Comprehensive Cance Center	9,153	—	12,253	4	3,104	—	—	—	—		—	3,104	12,934	16,038
Total nonmajor component units	$ 2,135,444	1,518,821	69,788	20,678	(526,157)	276,245	(67,832)	5,553	65,642	144,627	29,586	(72,336)	2,213,321	2,140,985

See accompanying independent auditors' report.

COMMONWEALTH OF PUERTO RICO

Basic Financial Statements
and Required Supplementary Information

June 30, 2014

BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION

Fiscal Year Ended June 30, 2014

Commonwealth of Puerto Rico

Honorable Alejandro García Padilla
Governor

Prepared by:

Puerto Rico Department of the Treasury

Juan Zaragoza Gómez, CPA
Secretary of the Treasury

Juan Flores Galarza, CPA
Undersecretary of Treasury

COMMONWEALTH OF PUERTO RICO

Table of Contents

COMMONWEALTH OF PUERTO RICO

Table of Contents

COMMONWEALTH OF PUERTO RICO

Table of Contents

KPMG LLP
American International Plaza
Suite 1100
250 Muñoz Rivera Avenue
San Juan, PR 00918-1819

Independent Auditors' Report

The Honorable Governor and Legislature
Commonwealth of Puerto Rico
San Juan, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Puerto Rico (the Commonwealth) as of and for the year ended June 30, 2014, and the related notes to basic financial statements, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following entities, funds and activities:

- *Governmental Activities*

  - Puerto Rico Public Housing Administration, which represents 14.17% and 2.17% of the total assets and revenues, respectively, of the General Fund.

  - Office for the Administration of the Sales and Acquisition Fund of the Puerto Rico Department of Housing, which represents 0.58% and 0.02% of the total assets and revenues, respectively, of the General Fund.

  - Office for the Improvements of Public Schools, which represents 0.59% and 0.00% of the total assets and revenues, respectively, of the General Fund.

  - Labor Development Administration, which represents 0.32% and 0.31% of the total assets and revenues, respectively, of the General Fund.

  - Public Buildings Authority special revenue, debt service, and capital projects funds, which are non-major governmental funds that collectively represent 6.70% and 1.74% of the total assets and revenues, respectively, of the aggregate remaining fund information.

KPMG

- Puerto Rico Infrastructure Financing Authority special revenue, debt service, and capital projects funds, which are non-major governmental funds that collectively represent 5.21% and 0.26% of the total assets and revenues, respectively, of the aggregate remaining fund information.

- The Children's Trust special revenue and debt service funds, which are non-major governmental funds that collectively represent 2.37% and 0.15% of the total assets and revenues, respectively, of the aggregate remaining fund information.

- Special Communities Perpetual Trust special revenue and debt service funds, which are non-major governmental funds that collectively represent 1.38% and 0.07% of the total assets and revenues, respectively, of the aggregate remaining fund information.

- Puerto Rico Maritime Shipping Authority debt service fund, which is a non-major governmental fund that represents 0.03% and 0.00% of the total assets and revenues, respectively, of the aggregate remaining fund information.

These entities collectively represent 11.99% and 2.63% of the total assets and revenues, respectively, of the governmental activities.

o *Business-Type Activities*

- Unemployment Insurance Fund, which is a major enterprise fund.

- Additional Lottery System, representing 71.64% and 51.30% of the total assets and revenues, respectively, of the Lotteries Fund, which is a major enterprise fund.

- Puerto Rico Medical Services Administration, which is a major enterprise fund.

- Puerto Rico Water Pollution Control Revolving Fund, which is a major enterprise fund.

- The Governing Board of 9-1-1 Services, which is a non-major enterprise fund, representing 0.49% and 0.94% of the total assets and revenues, respectively, of the aggregate remaining fund information.

- The Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund, which is a non-major enterprise fund representing 2.48% and 0.14% of the total assets and revenues, respectively, of the aggregate remaining fund information.

- The Disability Insurance Fund, which is a non-major enterprise fund representing 1.21% and 0.53% of the total assets and revenues, respectively, of the aggregate remaining fund information.

- The Drivers' Insurance Fund, which is a non-major enterprise fund representing 0.39% and 0.21% of the total assets and revenues, respectively, of the aggregate remaining fund information.

These entities collectively represent 99.99% and 69.62% of the total assets and revenues, respectively, of the business-type activities.

o *Discretely Presented Component Units*

The discretely presented component units listed in note 1(c) represent 78.11% and 95.25% of the total assets and revenues, respectively, of the aggregate discretely presented component units.

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the activities, funds, and component units indicated above, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified and modified audit opinions.

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Aggregate Discretely Presented Component Units	Unmodified
General Fund	Unmodified
Debt Service Fund	Unmodified
COFINA Special Revenue Fund	Unmodified
COFINA Debt Service Fund	Unmodified
Unemployment Insurance Fund	Unmodified
Lotteries Fund	Unmodified
Puerto Rico Medical Services Administration Fund	Unmodified
Puerto Rico Water Pollution Control Revolving Fund	Unmodified
Aggregate Remaining Fund Information	Qualified

Basis for Qualified Opinion on the Aggregate Remaining Fund Information

The non-major governmental funds include a blended component unit (Puerto Rico Infrastructure Financing Authority (PRIFA)) that purchased Commonwealth (COFINA) bonds as an investment. As a result of the blended presentation of PRIFA, the investment in COFINA bonds are presented as an interfund loan due from the COFINA Debt Service Fund. The Commonwealth evaluated its ability to repay the COFINA bonds (interfund loan) due to the non-major governmental funds (PRIFA). However, we believe the Commonwealth's analysis did not adequately consider all relevant factors that could adversely affect the collectability of the interfund receivable balance of approximately $203 million as of June 30, 2014, including the Commonwealth's recurring deficits, negative financial position, deterioration of economic conditions, and limited ability to access credit markets. As a result, we believe that such interfund loan is overstated and is not reported at its net realizable value as of June 30, 2014, as required by U.S. generally accepted accounting principles. The amount by which this overstatement would affect the assets, fund balances and expenses of the aggregate remaining fund information has not been determined.

Qualified Opinion

In our opinion, based on our audit and the reports of other auditors, except for the effects of the matter described in the Basis for Qualified Opinion on the Aggregate Remaining Fund Information paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate remaining fund information of the Commonwealth as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Unmodified Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the Commonwealth as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

Uncertainty about Ability to Continue as a Going Concern – Primary Government

The accompanying basic financial statements of the Commonwealth have been prepared assuming that the Commonwealth will continue as a going concern. As discussed in note 2 (a) to the basic financial statements, the Commonwealth's recurring deficits, negative financial position, further deterioration of its economic condition, and inability to access the credit markets raises substantial doubt about the Commonwealth's ability to continue as a going concern. Management's plans in regard to these matters are also described in note 2 (a). The basic financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinions are not modified with respect to this matter.

Uncertainty about Ability to Continue as a Going Concern – Major Discretely Presented Component Units

The accompanying basic financial statements have been prepared assuming that the Commonwealth's major discretely presented component units will continue as a going concern. As discussed in note 2 (b) to the basic financial statements, the following major discretely presented component units have been identified as having substantial doubt about their ability to continue as a going concern. Management's plans in regard to these matters are also described in note 2 (b). The basic financial statements do not include any adjustments that might result from the outcome of these uncertainties. Our opinions are not modified with respect to these matters.

KPMG

- *Government Development Bank for Puerto Rico (GDB)*

  The Commonwealth and its public entities have not been able to repay their loans from the Bank, which has significantly affected the Bank's liquidity and ability to repay its obligations.

- *Puerto Rico Highways and Transportation Authority (PRHTA)*

  The financial statements of PRHTA as of June 30, 2014 and for the year then ended were audited by other auditors whose report thereon, dated December 18, 2015, included an emphasis of matter paragraph related to PRHTA's ability to continue as a going concern. As stated in PRHTA's independent auditors' report, the PRHTA has had significant recurring losses from operations and does not have sufficient funds available to fully repay its various obligations as they come due.

- *Puerto Rico Electric Power Authority (PREPA)*

  The financial statements of PREPA as of June 30, 2014 and for the year then ended were audited by other auditors whose report thereon, dated January 28, 2016, included an emphasis of matter paragraph related to PREPA's ability to continue as a going concern. As stated in PREPA's independent auditors' report, PREPA does not have sufficient funds available to fully repay its various obligations as they come due and has entered into a process to restructure its long-term debt.

- *Puerto Rico Aqueduct and Sewer Authority (PRASA)*

  PRASA has had significant recurring operating losses, working capital deficiencies, credit downgrades, and large non-discretionary capital expenditure requirements. PRASA currently faces heightened liquidity and market access risk and, as a result of PRASA's inability to obtain long-term financing, it has not been able to pay during fiscal year 2015 certain contractor obligations related to its Capital Improvement Program. PRASA's ability to obtain long term financing for its Capital Improvement Plan is uncertain.

- *University of Puerto Rico (UPR)*

  The UPR has had significant recurring operating losses and has historically relied on GDB for liquidity and financial management support. Also, approximately 70% of the operating and non-operating revenues of the UPR consist of Commonwealth appropriations, grants, and contracts. The UPR's ability to continue receiving similar operational support and financing from the Commonwealth and GDB is uncertain.

- *Puerto Rico Health Insurance Administration (PRHIA)*

  PRHIA has had significant recurring operating losses, working capital deficiencies, deficits, and financial dependency on the Commonwealth resulting in PRHIA facing heightened liquidity and market access risk. PRHIA has not been able to repay during fiscal year 2015 the principal balance due on a credit facility with GDB. PRHIA's ability to continue receiving operational support from the Commonwealth, or financing from GDB or the private sector, is uncertain.

Other Liquidity Risks and Uncertainties

As discussed in note 2 (c) to the basic financial statements, the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), the Commonwealth of Puerto Rico Judiciary Retirement System (JRS), and the Puerto Rico System of Annuities and Pensions for Teachers (TRS) are at risk of becoming insolvent. As of June 30, 2014, the fiduciary net position as a percentage of the total pension liability for JRS and TRS were 12.31% and 11.51%, respectively. In the opinion of management, based on information prepared by consulting actuaries, if measures are not taken to significantly increase

contributions, JRS will become insolvent by fiscal year 2018 while TRS will become insolvent between fiscal years 2018 and 2019 depending on the timing of receipt of contributions and TRS' ability to dispose of illiquid assets. In addition, ERS' fiduciary net position has been exhausted in the 2014-2015 fiscal year. If the increasing and additional contributions stipulated by law are not paid in full on an annual basis, ERS will continue being rapidly defunded and gross assets will be exhausted. Further, annual cash flow estimates for the foreseeable future are presently estimated to be insufficient to cover ERS' obligations. Finally, future employers' contributions have been pledged to debt service, consequently, further depletion of ERS' assets could result in an inability to pay benefits. Our opinions are not modified with respect to these matters.

Adoption of New Accounting Pronouncements

As discussed in note 1(cc) to the basic financial statements, in fiscal year 2014, the Commonwealth adopted the provisions of Governmental Accounting Standards Board (GASB) Statements No. 65, *Items Previously Reported as Assets and Liabilities*; No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*; and No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Our opinions are not modified with respect to these matters.

Restatement of Fund Balance

As discussed in note 3 to the basic financial statements, the fund balance as of July 1, 2013 of the COFINA Debt Service Fund has been restated to correct a misstatement. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 8 through 35, the schedules of funding progress on pages 310 and 311, the schedule of employers' contributions on page 312, and the schedule of revenue and expenditures –budget and actual–budgetary basis – General Fund on page 313, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth's basic financial statements. The combining and individual fund financial statements and schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and the other auditors. In our opinion, based on our

KPMG

audit, on the procedures described above, and the reports of other auditors, the combining and individual fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

June 30, 2016

Stamp No. E220563 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report

Management's Discussion and Analysis

This management's discussion and analysis section (MD&A) provides a narrative overview and analysis of the financial activities of the Commonwealth of Puerto Rico (the Commonwealth) for the fiscal year ended June 30, 2014. The MD&A is intended to serve as an introduction to the Commonwealth basic financial statements, which have the following components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. The MD&A is designed to (a) assist the reader in focusing on significant matters, (b) provide an overview of the Commonwealth's financial activities, (c) present an overview of results for the General Fund on a budgetary basis, and (d) highlight individual fund matters. The following presentation is by necessity highly summarized, and in order to gain a thorough understanding of the Commonwealth's financial condition, the financial statements, notes, and required supplementary information should be reviewed in their entirety.

Financial Highlights

- The Commonwealth's Primary Government, which encompasses the Commonwealth's Governmental and Business-Type Activities, reported, in the government-wide financial statements, a net deficit position of approximately $49.7 billion at June 30, 2014, comprising of approximately $15.4 billion in total assets and approximately $538 million in deferred outflows of resources, less approximately $65.5 billion in total liabilities and approximately $103 million in deferred inflows of resources.
- The net deficit position of the Commonwealth's Primary Government increased by approximately $2.7 billion during fiscal year 2014. The net deficit position for Governmental Activities increased by approximately $2.7 billion and the net position for Business-Type Activities decreased by $6.2 million during the fiscal year 2014.
- The Commonwealth's Governmental Activities had total revenue of approximately $17.8 billion for fiscal year 2014, which was lower than total expenses of approximately $20.8 billion, but represented an increase of approximately $1.6 billion in total revenue when compared to fiscal year 2013. The Commonwealth's Business-Type Activities had total revenue of approximately $1.5 billion for fiscal year 2014, which represented a decrease of approximately $89 million when compared to fiscal year 2013.
- Total expenses incurred by the Commonwealth's Primary Government in fiscal year 2014, including expenses of approximately $1.2 billion incurred by Business-Type Activities, were approximately $22.0 billion, a decrease of approximately $876 million when compared to total expenses incurred during fiscal year 2013.
- The total deficiency of revenue under expenditures and general obligation debt service payments in the General Fund (budgetary basis) for fiscal year 2014 was approximately $1.2 billion, consisting of the difference between total actual revenue of approximately $8.7 billion (excluding other financing sources), less the sum of total actual expenditures of approximately $9.2 billion and general obligation debt service payments of approximately $738 million (excluding other financing uses). The variance between the U.S. GAAP and budgetary basis deficits results from differences of accounting, entity, and perspective differences between budgetary reporting versus those established by U.S. GAAP and followed in these financial statements.
- The Commonwealth's Discretely Presented Component Units reported a net position of approximately $6.1 billion at June 30, 2014, comprised of approximately $52.3 billion in total assets and approximately $321

million in deferred outflows of resources, less approximately $44.8 billion in total liabilities and approximately $1.7 billion in deferred inflows of resources.

- The net position of the Commonwealth's Discretely Presented Component Units decreased by approximately $3.5 billion during fiscal year 2014, as compared to fiscal year 2013.
- The Commonwealth's Aggregate Discretely Presented Component Units had total revenue of approximately $13.2 billion (which includes $2.4 billion from the Primary Government) and total expenses of $16.7 billion for fiscal year 2014.
- The Commonwealth's management believes that there is substantial doubt as to the ability of the Primary Government (including the Governmental Activities carried out by certain blended component units) and of various discretely presented component units to continue as a going concern in accordance with Governmental Accounting Standards Board (GASB) Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. In addition, the Commonwealth's management believes that the pension trust funds, included as part of the fiduciary funds, carry a substantial risk of insolvency, if measures are not taken to significantly increase contributions to such funds.

Reporting the Commonwealth as a Whole

The Commonwealth as a whole consists of all departments, agencies, funds, functions, and public corporations that have been determined to meet the requirements for inclusion in the Commonwealth's financial reporting entity. The Commonwealth has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Commonwealth are such that exclusion would cause the Commonwealth's basic financial statements to be misleading or incomplete.

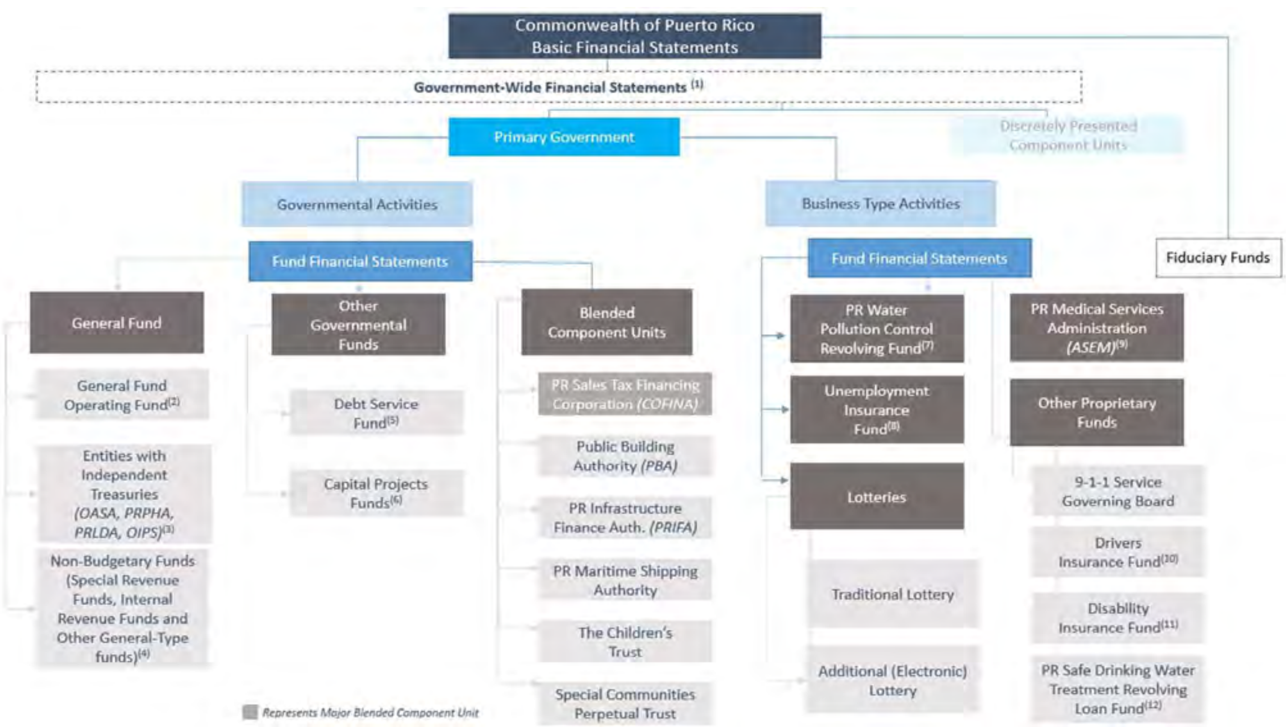
The Commonwealth's basic financial statements consist of three components: (ii) government-wide financial statements, (ii) fund financial statements, and (iii) notes to the basic financial statements. The fund financial statements include governmental, proprietary, and fiduciary funds that will be described later in this MD&A. The notes to the basic financial statements provide explanations and/or additional detail for all of the above types of financial statements and are considered an integral part of the financial statements.

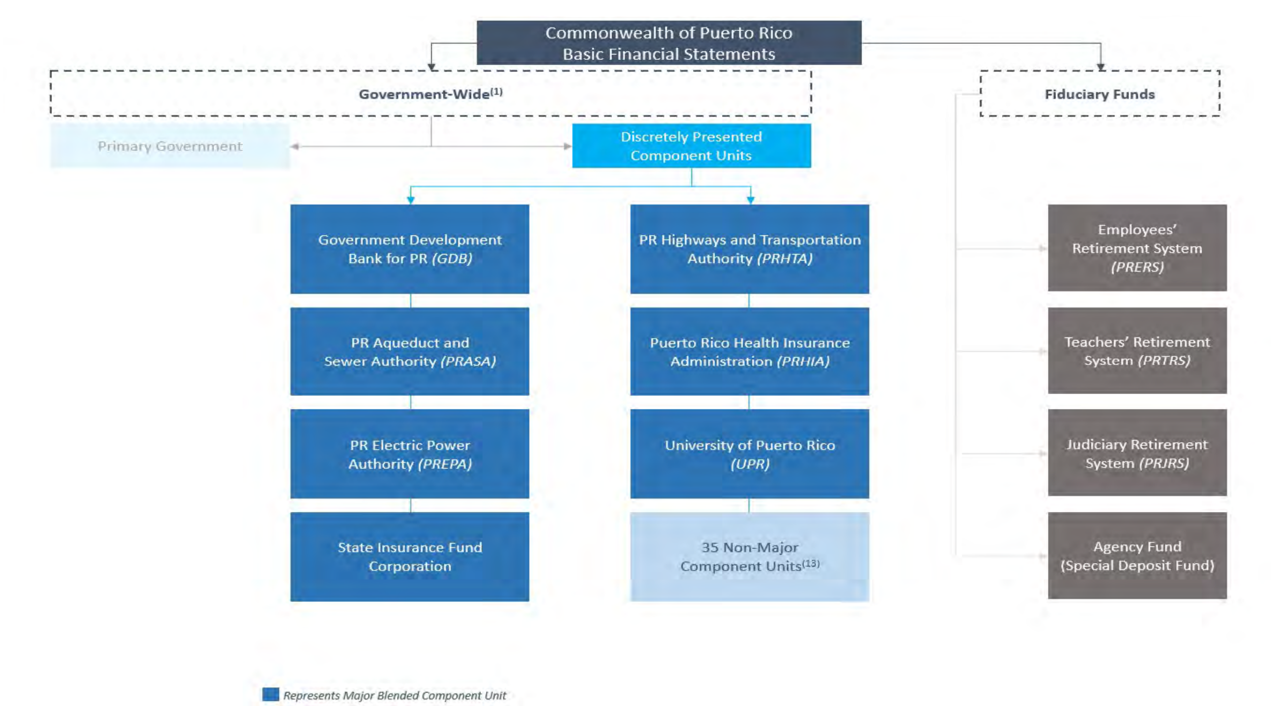
COMMONWEALTH OF PUERTO RICO

Management's Discussion and Analysis (Unaudited)

June 30, 2014

The following chart illustrates the structure of the Commonwealth for financial reporting purposes:





Footnotes:

(1) The Government-Wide financial statements report information of all of the non-fiduciary activities of the Commonwealth and its component units.

(2) Primary operating fund of the Commonwealth. The financial resources received and used in the General Fund Operating Fund mostly includes: the General Fund budget, as approved by the Commonwealth's Legislature and as adjusted for timing and basis of accounting differences. The results of these operations are included in the General Fund column in the Fund Financial Statements.

(3) OASA: Office for Administration, Sales and Acquisition Fund of the Puerto Rico Department of Housing (also known as *CRUV*, for its Spanish acronym). PRPHA: Puerto Rico Public Housing Administration. PRLDA: Puerto Rico Labor Development Administration. OIPS: Office for Improvement of Public Schools (also known as *OMEP*, for its Spanish acronym). The results of these operations are included in the General Fund column in the Fund Financial Statements.

(4) Special Revenue Funds (including Federal Funds Fund, Pledge Funds Fund and others) are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Internal Revenue Funds includes only the General Services Administration and accounts for transactions within the Commonwealth's agencies. Other general-type funds include expenses or accruals incurred not appropriated in the annual General Fund budget and appropriations made by the Commonwealth's Legislature without a specific revenue source. The results of these operations are included in the General Fund column in the Fund Financial Statements.

(5) The debt service fund accounts for and reports financial resources that are restricted, committed or assigned to expenditure for general long-term bonds' principal, interest, and related costs other than bonds payable from the operations of proprietary fund types, pension trust funds, and component units, either blended or discretely presented. Long-term debt and interest due on July 1st of the following fiscal year are accounted for as a fund liability if resources are available as of June 30th for its payment.

(6) The capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. These capital expenditures may be for the primary government directly or for discretely presented component units and outside organizations and governments such as the municipalities of the Commonwealth and other applicable entities.

(7) The Water Pollution Control Revolving Fund, administered by the Puerto Rico Environmental Quality Board, is authorized to enter into operating agreements and capitalization grant agreements with the U.S. Environmental Protection Agency (EPA), mostly for water infrastructure projects, under a joint cooperation agreement between the Environmental Quality Board, the Puerto Rico Infrastructure Financing Authority (PRIFA), the Puerto Rico Aqueduct and Sewer Authority (PRASA) and the Government Development Bank for Puerto Rico (GDB), where each entity has agreed to assume their corresponding responsibilities.

(8) The Unemployment Insurance Fund accounts for amounts requisitioned for the Puerto Rico Unemployment Insurance Trust Fund, held by the U.S. Treasury, for payment of unemployment benefits and charges made to individual employers.

(9) Also known as ASEM, for its Spanish Acronym. This fund accounts for the operations of the centralized health services, provided in support of hospitals and other functions offered by the member institutions and consumers of the complex known as Puerto Rico Medical Center.

(10) Drivers Insurance Fund was created by Act No. 428 on May 15, 1950. It is used to account for contributions made by the drivers and their employers to provide a social security plan for the benefit of the drivers in Puerto Rico. The plan also includes payment of benefits for health and life insurance.

(11) Disability Insurance Fund was created by Act No. 139 on June 26, 1968. It is used to account for disability benefits to remedy temporarily the loss of income as a result of disability caused by sickness or accident unrelated to the employment.

(12) Safe Drinking Water Treatment Revolving Fund was created by Act No. 32 on July 7, 1997. It is administered, pursuant to Act No. 9 of June 18, 1970, as amended, by the Puerto Rico Department of Health (PRDOH). Pursuant to such act, the PRDOH, on behalf of the Commonwealth, is authorized to enter into operating and capitalization grant agreements with the EPA for lending activities.

(13) Refer to Note 1(c) to the Basic Financial Statements.

The following table summarizes the major features of the basic financial statements.

	Government-Wide Financial Statements	Fund Financial Statements: Governmental Funds	Fund Financial Statements: Proprietary Funds	Fund Financial Statements: Fiduciary Funds
Scope	Governmental activities, business type activities and discretely presented component units.	The activities of the Commonwealth that are not proprietary or fiduciary, including education, health, public safety services, among others.	Activities of the Commonwealth that operate similar to private businesses, including Lotteries.	Instances in which the Commonwealth is the trustee or agent for someone else's resources, such as the retirement plans for public employees.
Required financial statements	Statement of net position and statement of activities.	Balance sheet and statement of revenue, expenditures, and changes in fund balances.	Statement of net position; statement of revenue, expenses and changes in fund net position; and statement of cash flows.	Statement of fiduciary net position and statement of changes in fiduciary net position.
Accounting basis and measurement focus	Accrual basis and economic resources measurement focus.	Modified accrual basis and current financial resources measurement focus.	Accrual basis and economic resources measurement focus.	Accrual basis and economic resources measurement focus.
Type of asset/liability information	All assets and liabilities, both financial and capital, and both short-term and long-term.	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term obligations are included.	All assets and liabilities, both financial and capital, and both short-term and long-term.	All assets and liabilities, both financial and capital, and both short-term and long-term.
Type of inflow/outflow information	All revenue and expenses during the year, regardless of when cash is received or paid.	Revenue for which cash is received during the year or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenue and expenses during the year, regardless of when cash is received or paid.	All revenue and expenses during the year, regardless of when cash is received or paid.

Government-Wide Financial Statements

The government-wide financial statements provide readers a broad view of the Commonwealth's operations in a manner similar to a private-sector business. The statements provide both short and long-term information about the Commonwealth's financial position, which assists in assessing the Commonwealth's economic condition at the end of the fiscal year. These are prepared using the economic resources measurement focus and the full accrual basis of accounting. This basically means they follow methods that are similar to those used by most private businesses. They take into account all revenue and expenses connected with the fiscal year even if cash involved has not been received or paid.

The government-wide financial statements include two statements:

- ***Statement of Net Position*** – This statement presents all of the government's assets, liabilities, and deferred outflows and inflows of resources. Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Over time, increases or decreases in the Commonwealth's net position may serve as a useful indicator of whether the financial position of the Commonwealth is improving or deteriorating.
- ***Statement of Activities*** – This statement presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenue for each function of the Commonwealth.

Although one can think of the Commonwealth's net position as one way to measure whether the Commonwealth's financial health is improving or deteriorating, one may also need to consider other nonfinancial factors, such as changes in the Commonwealth tax structure, population, employment, debt levels, fiscal conditions, economic factors, availability to external markets and the condition of the Commonwealth's roads, bridges and buildings, in order to assess the overall health of the Commonwealth.

In the statement of net position and the statement of activities, the operations of the Commonwealth are divided into the following activities:

- ***Governmental Activities*** – Most of the Commonwealth's basic services are reported here, including education, health, public housing and welfare, public safety, economic development, general government and interest on long-term debt. Federal grants (intergovernmental), personal and corporate income taxes, consumption and use taxes, business and other taxes, transfers from lottery revenues, and bond or loan proceeds finance most of these activities. Also included in Governmental Activities are six blended component units, which are entities that, while legally separate from the Commonwealth, meet the blending criteria under GASB to be reported as part of the Primary Government.
- ***Business-Type Activities*** – These activities are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These Business-Type Activities of the Commonwealth include the operations of the following major funds: the Unemployment Insurance Trust Fund, the Lotteries Fund, the Puerto Rico Medical Services Administration (PRMeSA) and the Puerto Rico Water Pollution Control Revolving Fund (PRWPCRF).

- ***Discretely Presented Component Units*** – Although legally separate from the Commonwealth, these discretely presented component units are important to the Commonwealth because the Commonwealth is financially accountable for them or the nature and significance of their relationship with the Commonwealth are such that their exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. Discretely presented component units, presented in a separate column in these basic financial statements, are discretely presented principally because of the nature of the services they provide, the Commonwealth's ability to impose its will, principally through the appointment of their governing authorities, and because such component units provide specific financial benefits to, or impose financial burdens on, the Commonwealth. The Commonwealth classifies 48 separate legal entities as discretely presented component units, as disclosed in note 1 to the basic financial statements.

The government-wide financial statements can be found immediately following this MD&A.

Governmental and Proprietary Fund Financial Statements

Financial statements prepared at the fund level provide additional details about the Commonwealth's financial position and activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth uses fund accounting to help ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on individual parts of the Commonwealth government, reporting the Commonwealth's operations in more detail than the government-wide financial statements. Information presented in the fund financial statements differs from the information presented in the government-wide financial statements because the perspective and basis of accounting used to prepare the fund financial statements are different from the perspective and basis of accounting used to prepare the government-wide financial statements. The Commonwealth's governmental and proprietary funds types use different perspectives and accounting basis. The funds presented in the fund financial statements are categorized as either major or nonmajor funds as required by U.S. generally accepted accounting principles (U.S. GAAP). All of the funds of the Commonwealth can be divided into the following categories:

- ***Governmental Funds*** – Most of the basic services provided by the Commonwealth are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as Governmental Activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of expendable resources. They also focus on the balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as the current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the Commonwealth's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the Commonwealth. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for the Governmental Activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the Governmental Activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

The Commonwealth has four major governmental funds. That is, each major fund is presented in a separate column in the governmental funds balance sheet and in the governmental funds statement of revenue, expenditures, and changes in fund balances. The Commonwealth's four major governmental funds are:

- General Fund[1]
- Debt Service Fund
- COFINA Special Revenue Fund
- COFINA Debt Service Fund

The remaining nonmajor governmental funds, which consist of funds from the blending of the Public Buildings Authority (PBA), the Children's Trust, PRIFA, the Special Communities Perpetual Trust (SCPT), the Puerto Rico Maritime Shipping Authority, and the Commonwealth's capital project funds, are grouped and presented in a single column in the governmental funds financial statements. The basic governmental funds financial statements can be found immediately following the government-wide financial statements.

- ***Proprietary Funds*** – These funds are used to show activities that operate more like those of commercial enterprises. Because these funds charge fees for services provided to outside customers, including local governments, they are also known as enterprise funds. Proprietary funds provide the same type of information as the business-type activities in the government-wide financial statements, but in more detail. Like the government-wide financial statements, proprietary funds financial statements use the full accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary funds financial statements. The Commonwealth has four major proprietary funds: (i) the Unemployment Insurance Fund; (ii) the Lotteries Fund, which includes the Lottery of Puerto Rico and the Additional Lottery System; (iii) PRMeSA; and (iv) and PRWPCRF. Other nonmajor proprietary funds are grouped and presented in a separate column in the proprietary funds financial statements. The basic proprietary funds financial statements can be found immediately following the governmental funds financial statements.

Fiduciary Funds

The Commonwealth is a trustee, or fiduciary, for its employees' pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. All the Commonwealth fiduciary activities are reported in a separate statement of fiduciary net position and of changes in fiduciary net position. The Commonwealth excluded these activities from the Commonwealth government-wide financial statements because the Commonwealth cannot use these assets to finance its operations. The Commonwealth is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

---

[1] The General Fund is the primary operating fund of the Commonwealth. The financial resources received and used in the General Fund mostly includes: the General Fund budgeted resources, as approved by the Commonwealth Legislature and as adjusted for timing and basis of accounting differences, and other financial resources outside the General Fund budget such as: federal funds, pledged funds, resources that otherwise would be accounted for in special revenue funds, and agencies with independent treasuries.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the basic financial statements can be found immediately following the major component units' combining financial statements.

Required Supplementary Information/Supplementary and Other Information (Unaudited)

The basic financial statements include a section of required supplementary information and other information immediately following its notes. This section includes information of funding progress and employer contributions for the Commonwealth's three separate retirement systems, including postemployment healthcare benefits, schedule of revenue and expenditures – budget and actual – budgetary basis – General Fund, supplemental schedule of expenditures by agency – budget and actual – budgetary basis – General Fund, and combining schedules for nonmajor governmental funds, nonmajor proprietary funds, fiduciary funds, and nonmajor discretely presented component units.

Overall Financial Position and Results of Operations (Government-Wide)

The following is an analysis of the financial position and changes in the financial position of the Commonwealth's Governmental Activities and Business-Type activities for fiscal year 2014.

Net Position

Condensed financial information from the statement of net position as of June 30, 2014 and 2013 is as follows (expressed in thousands):

		Governmental Activities		Business-Type Activities		Primary Government	
		2014	2013 (As restated)	2014	2013 (As restated)	2014	2013 (As restated)
Assets:							
Non-capital assets:							
Cash and investments	$	3,097,994	3,634,963	814,163	772,319	3,912,157	4,407,282
Receivables, net		2,424,337	2,022,909	599,736	566,035	3,024,073	2,588,944
Other		205,882	220,048	26,784	72,094	232,666	292,142
Total non-capital assets		**5,728,213**	**5,877,920**	**1,440,683**	**1,410,448**	**7,168,896**	**7,288,368**
Capital Assets		**8,139,962**	**8,281,703**	**65,430**	**59,205**	**8,205,392**	**8,340,908**
Total assets		**13,868,175**	**14,159,623**	**1,506,113**	**1,469,653**	**15,374,288**	**15,629,276**
Deferred outflows of resources		**537,536**	**104,304**	—	—	**537,536**	**104,304**
Liabilities:							
Long-term liabilities		60,286,545	57,302,393	587,069	566,380	60,873,614	57,868,773
Other liabilities		4,454,723	4,696,939	133,195	111,233	4,587,918	4,808,172
Total liabilities		**64,741,268**	**61,999,332**	**720,264**	**677,613**	**65,461,532**	**62,676,945**
Deferred inflows of resources		**103,446**	—	—	—	**103,446**	—
Net Position:							
Net investment in capital assets		3,587,555	3,749,901	65,229	58,763	3,652,784	3,808,664
Restricted		506,839	946,509	1,090,021	1,011,466	1,596,860	1,957,975
Unrestricted (deficit)		(54,533,397)	(52,431,815)	(369,401)	(278,189)	(54,902,798)	(52,710,004)
Total net position (deficit)	$	**(50,439,003)**	**(47,735,405)**	**785,849**	**792,040**	**(49,653,154)**	**(46,943,365)**

Governmental entities are required by U.S. GAAP to report on their net position. The statement of net position presents the value of all of the Commonwealth's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between them reported as net position. Net position may serve over time as a useful indicator of a government's financial position. Total assets plus deferred outflows of resources and total liabilities plus deferred inflows of resources of the Primary Government as of June 30, 2014 amounted to approximately $15.9 billion and $65.6 billion, respectively, for a net deficit of approximately $49.7 billion as of June 30, 2014, compared to a net deficit of approximately $46.9 billion as of June 30, 2013 (as restated).

Net deficit position for Governmental Activities increased by approximately $2.7 billion for fiscal year 2014, increasing to approximately $50.4 billion at June 30, 2014 from approximately $47.7 billion at June 30, 2013 (as restated). The unrestricted deficit for Governmental Activities – that part of net position that can be used to finance day-to-day governmental operations without constraints established by debt covenants, enabling legislation, or other legal requirements – had a deficit of approximately $54.5 billion as of June 30, 2014. The unrestricted deficit in Governmental Activities, which increased by approximately $2.1 billion, exists primarily because the Commonwealth has issued debt to pay for current expenses of Governmental Activities and not capital assets related thereto. The statement of net position in Governmental Activities reflects outstanding bonds and notes amounting to approximately $40.3 billion and net pension obligations amounting to approximately $14.6 billion as of June 30, 2014, as compared to outstanding bonds and notes amounting to approximately $37.4 billion and net pension obligations amounting to approximately $13.1 billion as of June 30, 2013. This deficit in unrestricted net position of Governmental Activities can be expected to continue for as long as the Commonwealth continues to have obligations outstanding for purposes other than the acquisition of governmental capital assets. The deficit also shows the aggregate effect of decades of operating expenses materially exceeding actual revenues.

A portion of the Commonwealth's net position reflects its investment in capital assets such as land, buildings, and equipment, less any related debt used to acquire those assets. The Commonwealth uses these capital assets to provide services to its residents; consequently, these assets are not available for future spending, and with exception of business-type assets, do not generate direct revenue for the Commonwealth. They do represent, however, an obligation on the part of the Commonwealth to maintain these assets into the future. Although the Commonwealth investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since most of the capital assets themselves cannot be used to liquidate these liabilities.

During fiscal year 2014, the Commonwealth adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* and GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The impact of adopting GASB No. 65 and 70 consisted of charging-off the applicable primary government agencies' or unit's existing unamortized debt issuance costs, other than prepaid insurance, against its beginning net position, and recognizing a liability for the obligation of guaranteeing the debt of Ports of the Americas Authority (PAA) and PRASA, respectively. Adopting the aforementioned pronouncements increased the net deficit of governmental activities by approximately $768 million (see note 3 to the basic financial statements for further detail). Also the beginning balances of net position as previously reported were adjusted to correct certain understatements in accounts receivable and accounts payable, and overstatements in deferred revenue, investments, and bonds payable; increasing the net position by approximately $246 million (see note 3 to the basic financial statements for further detail).

COMMONWEALTH OF PUERTO RICO

Management's Discussion and Analysis (Unaudited)

June 30, 2014

The net position in Business-Type Activities decreased by approximately $6.2 million in fiscal year 2014 when compared to fiscal year 2013, from approximately $792 million at June 30, 2013 to approximately $786 million at June 30, 2014.

Statements of Activities and Results of Operations

Condensed financial information of the statements of activities for the years ended June 30, 2014 and 2013 is as follows (expressed in thousands):

	Governmental Activities 2014	Governmental Activities 2013 (As restated)	Business-Type Activities 2014	Business-Type Activities 2013 (As restated)	Primary Government 2014	Primary Government 2013 (As restated)
Revenue:						
Program revenue:						
Charges for services	$ 656,612	717,076	1,339,439	1,341,729	1,996,051	2,058,805
Operating grants and contributions	6,375,684	6,749,380	127,808	214,193	6,503,492	6,963,573
Capital grants and contributions	83,172	110,249	—	—	83,172	110,249
	7,115,468	7,576,705	1,467,247	1,555,922	8,582,715	9,132,627
General revenue:						
Taxes	10,226,557	8,244,567	—	—	10,226,557	8,244,567
Revenue from global tobacco settlement agreement	72,012	109,414	—	—	72,012	109,414
Revenue from component units	131,133	90,413	—	—	131,133	90,413
Other, including loss on investments	279,018	183,606	14,257	14,198	293,275	197,804
	10,708,720	8,628,000	14,257	14,198	10,722,977	8,642,198
Total revenue	**17,824,188**	**16,204,705**	**1,481,504**	**1,570,120**	**19,305,692**	**17,774,825**
Expenses:						
General government	2,894,304	3,342,663	—	—	2,894,304	3,342,663
Public safety	2,236,392	2,664,974	—	—	2,236,392	2,664,974
Health	3,139,595	3,245,973	—	—	3,139,595	3,245,973
Public housing and welfare	3,735,594	3,731,627	—	—	3,735,594	3,731,627
Education	4,570,665	4,891,928	—	—	4,570,665	4,891,928
Economic development	1,417,068	1,145,653	—	—	1,417,068	1,145,653
Intergovernmental	371,719	483,970	—	—	371,719	483,970
Interest and other	2,429,405	2,077,180	—	—	2,429,405	2,077,180
Unemployment insurance	—	—	271,749	387,336	271,749	387,336
Lotteries	—	—	714,199	685,130	714,199	685,130
Medical Services Administration	—	—	204,688	200,888	204,688	200,888
Water Pollution Control Revolving Fund	—	—	1,183	1,527	1,183	1,527
Nonmajor proprietary funds	—	—	28,920	32,614	28,920	32,614
Total expenses	**20,794,742**	**21,583,968**	**1,220,739**	**1,307,495**	**22,015,481**	**22,891,463**
Increase (decrease) in net position before transfers	**(2,970,554)**	**(5,379,263)**	**260,765**	**262,625**	**(2,709,789)**	**(5,116,638)**
Transfers	**266,956**	**246,908**	**(266,956)**	**(246,908)**	**—**	**—**
Change in net position	**(2,703,598)**	**(5,132,355)**	**(6,191)**	**15,717**	**(2,709,789)**	**(5,116,638)**
Net position (deficit), beginning of year, as adjusted (note 3)	**(47,735,405)**	**(42,603,050)**	**792,040**	**776,323**	**(46,943,365)**	**(41,826,727)**
Net position (deficit), end of year	**$ (50,439,003)**	**(47,735,405)**	**785,849**	**792,040**	**(49,653,154)**	**(46,943,365)**

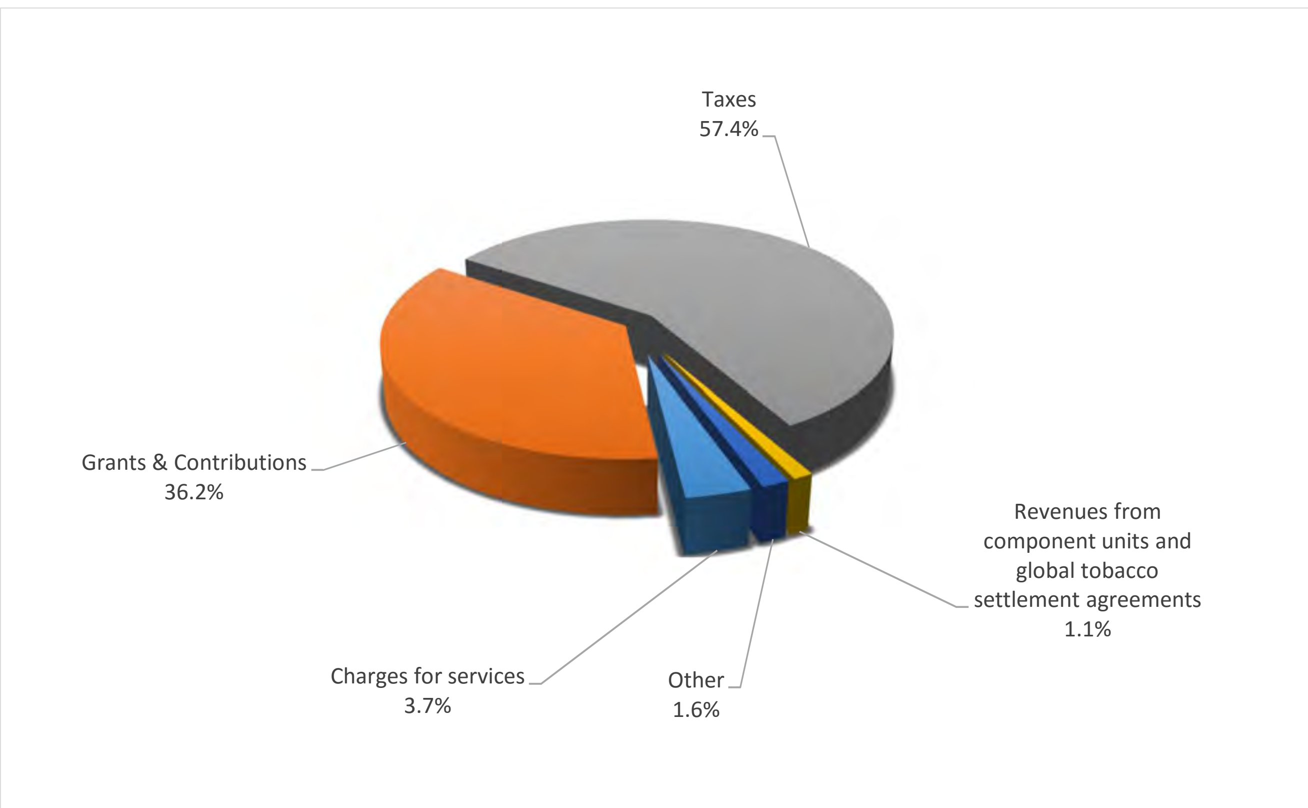
As described above, the Governmental Activities net deficit position increased from approximately $47.7 billion at June 30, 2013 (as restated) to approximately $50.4 billion at June 30, 2014, an increase of approximately $2.7 billion. The increase in total net deficit position is the result of higher operating expenses than operating revenue and an increase in the Commonwealth liabilities, such as bonds and notes, net pension obligations, legal

claims, and compensated absences, among others. Approximately 57.4% of the Governmental Activities' revenue came from taxes, while approximately 36.2% resulted from grants and contributions (primarily federal financial assistance). Charges for services represented approximately 3.7% of total revenue. The Governmental Activities' expenses cover a range of governmental services. The largest expenses were for general government, education, public housing and welfare, health, and public safety. In fiscal year 2014, Governmental Activities' expenses, which amounted to approximately $20.8 billion, were funded by approximately $10.7 billion in general revenue, approximately $7.1 billion in program revenue (comprised primarily of federal financial assistance) and transfers of approximately $267 million from the Business-Type Activities.

Total revenue from Governmental Activities for fiscal year 2014 increased by approximately $1.6 billion compared to fiscal year 2013. Fiscal stabilization initiatives, as well as other economic growth plans, helped increase revenue from Governmental Activities for fiscal year 2014, thus partially offsetting the effects on total revenue of the ongoing economic recession. During fiscal year 2014, the Commonwealth's policy of fiscal control reduced the level of expenses from Governmental Activities from fiscal year 2013 to fiscal year 2014 by approximately $789 million. If you exclude "Interest and other expenses," which increased by approximately $352 million for fiscal year 2014, total expenses were approximately $1.1 billion lower for fiscal year 2014 when compared to fiscal year 2013.

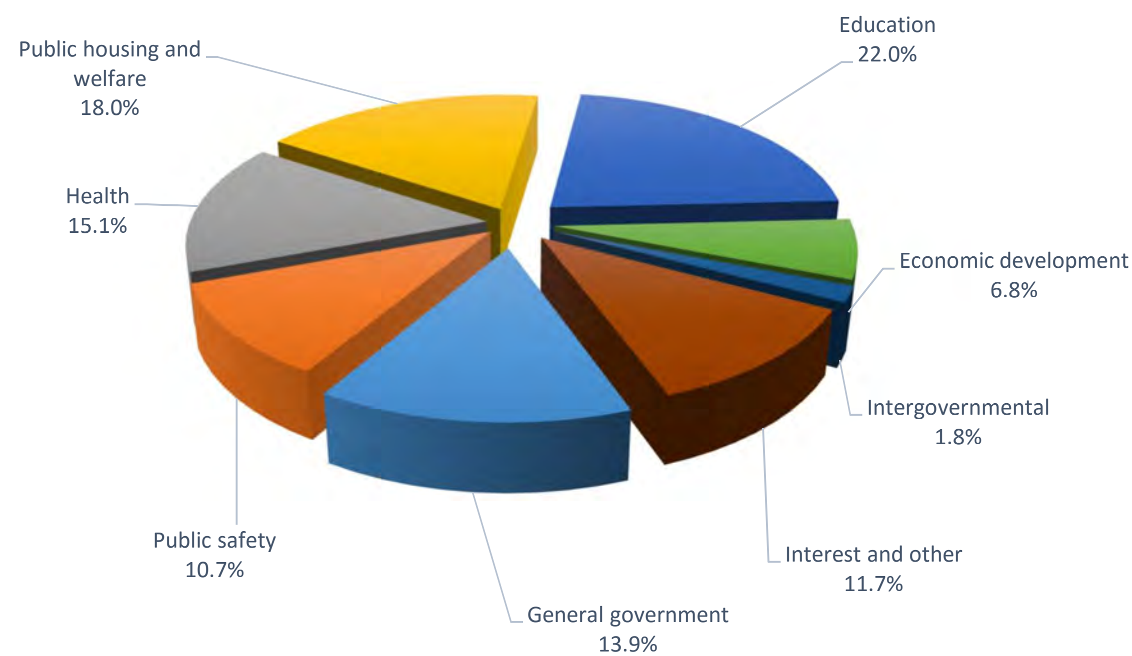
Revenues – Governmental Activities

Year ended June 30, 2014



 (Continued)

Expenses – Governmental Activities



Business-Type Activities' total net position decreased by approximately $6.2 million from the total net position at June 30, 2013. Approximately 91% of the business-type activities total revenue came from charges for services, while 9% resulted from grants and contributions (primarily federal financial assistance). Business-Type Activities expenses cover a range of services. The largest expenses were for lotteries, unemployment insurance, and PRMeSA. In fiscal year 2014, business-type activities' total revenue exceeded expenses by approximately $260.8 million. The excess of revenues over expenses in fiscal year 2014 was reduced by net transfers to other funds, mainly to the governmental activities, amounted to approximately $267.0.

Governmental Funds

The focus of the Commonwealth's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Commonwealth's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of fiscal year 2014, the Commonwealth's governmental funds, which include the General Fund, the Debt Service Fund, the COFINA Special Revenue Fund, the COFINA Debt Service Fund, and certain nonmajor governmental funds (i.e., PBA, PRIFA, and the Children's

Trust), reported a combined ending deficit of approximately $171 million. In fiscal year 2014, expenditures in these governmental funds exceeded revenues by approximately $3.8 billion. However, this deficit was offset by other financing sources totaling approximately $4.0 billion in the governmental funds. For fiscal year 2014, the excess of expenditures over revenues increased by approximately $195 million when compared with the prior year, primarily as a result of principal and interest payments on debt refunded through the issuance of the $3.5 billion of general obligations bonds in fiscal year 2014. Other financing sources increased by approximately $2.5 billion compared with the prior year. Such increase is attributable primarily to the issuance of $3.5 billion of general obligation bonds in fiscal year 2014.

The General Fund (as described in footnote 1 above) is the chief operating fund of the Commonwealth. At the end of fiscal year 2014, the General Fund, which encompasses other financial resources outside the General Fund budget such as federal funds, pledged funds, special revenue funds, nonbudgeted funds, and agencies with independent treasuries, had a total fund deficit of approximately $1.9 billion. The fund deficit of the Commonwealth's General Fund increased by approximately $81 million as a result of such fiscal year's change in financial position. The deficit also shows significantly higher operating expenses than projected and actual revenue necessary to provide essential services to the citizens.

The debt service fund is the fund in which the Commonwealth accumulates the resources for the payment of the long-term general obligations debt. The fund balance of the debt service fund increased by approximately $276.4 million in fiscal year 2014, to approximately $433 million at June 30, 2014, as a result of capitalized interest related to the 2014 general obligation bond issuance. Bonds and interest payable during fiscal year 2014 increased by approximately $77.2 million when compared with fiscal year 2013.

The COFINA Special Revenue Fund is used to account for and report all financial resources of the Puerto Rico Sales Tax Financing Corporation (COFINA). The fund balance of the COFINA special revenue fund decreased by approximately $43.4 million in fiscal year 2014, decreasing to approximately $5 million at June 30, 2014.

The COFINA Debt Service Fund is used to account for the Commonwealth sales tax revenue being deposited in the Dedicated Sales Tax Fund for the payment of interest and principal on long-term obligations of COFINA. The fund balance of the COFINA debt service fund decreased by approximately $52.9 million during fiscal year 2014, to approximately $337 million at June 30, 2014.

General Fund Budgetary Highlights

The Commonwealth Constitution requires the Governor to submit a balanced budget that contains a plan of expenditures for the ensuing fiscal year and identifies the anticipated revenues and other resources sufficient to meet the proposed expenditures. The Commonwealth adopts an annual appropriations budget for its General Fund. A budgetary comparison schedule has been provided in page 313 as required supplementary information for the General Fund to demonstrate compliance with this budget. The schedule of revenue and expenditures – budget and actual – budgetary basis – General Fund presents only the information for the General Fund for which there is a legally adopted budget, as required by U.S. GAAP.

Total General Fund actual revenue on a budgetary basis for fiscal year 2014 was approximately $8.7 billion (excluding other financing sources), representing a decrease of approximately $679 million, or 7%, from original budgeted revenue and an increase of approximately $595 million from actual revenue of approximately $8.1 billion for fiscal year 2013.

Total General Fund actual expenditures on a budgetary basis for fiscal year 2014 were approximately $9.2 billion, representing a decrease of $442 million from original budgeted expenses and an increase of approximately $228 million from actual expenditures of approximately $8.9 billion for fiscal year 2013.

For fiscal year 2014, the deficiency of revenue under expenditures (budgetary basis) was approximately $440 million, consisting of the difference between total actual revenue of approximately $8.7 billion and total actual expenditures of approximately $9.2 billion, excluding debt service payments on general obligation bonds. For fiscal year 2013, the deficiency of revenue under expenditures (budgetary basis) was approximately $807 million, consisting of the difference between total actual revenue of approximately $8.1 billion and total actual expenditures of approximately $8.9 billion. The deficiency of revenue under expenditures (budgetary basis) for fiscal year 2014 decreased by approximately $367 million when compared to fiscal year 2013 and decreased by approximately $898 million when compared to the deficiency of revenue under expenditures (budgetary basis) of approximately $1.3 billion in fiscal year 2012.

For fiscal year 2014, the total deficiency of revenue under expenditures and general obligation debt service payments in the General Fund (budgetary basis) was approximately $1.2 billion. It consisted of the difference between actual revenue of approximately $8.7 billion (excluding other financing sources), less the sum of total expenditures of approximately $9.2 billion and general obligation debt service payments of approximately $738 million (excluding other financing uses). This deficiency of approximately $1.2 billion in the General Fund (budgetary basis) differs from the deficiency of revenue under expenditures in the General Fund on a modified accrual basis (U.S. GAAP) of approximately $1.5 billion, which was offset by approximately $1.4 billion in other financing sources, principally consisting of proceeds from issuances of long-term debt, for a resulting net decrease in fund balances of approximately $80 million for the fiscal year 2014. The variance between the U.S. GAAP and budgetary basis deficiency results from differences in the basis of accounting, entity, and perspective differences between budgetary reporting versus those established by U.S. GAAP and followed in these financial statements. Examples of such differences include: (i) recognition of proceeds of long-term debt issued as other financing sources, (ii) recognition of receivables (revenue) for reimbursements of expenses allocated to federal funds, (iii) the recognition of revenue and expenditures of entities with independent treasuries, (iv) expenditures incurred in nonbudgetary funds (special revenue funds, internal revenue funds, and other funds), which were not included in the General Fund Budget, and (v) timing differences in basis of accounting such as (a) the recognition of receivables on income and corporate taxes and (b) recognition of expenditure accruals. A reconciliation is presented on page 317 in the notes to required supplementary information section. The Commonwealth's ability to continue reducing the deficit will depend in part on its ability to continue increasing revenue and reducing expenditures in the face of rising debt service and pension obligations, which in turn depends on a number of factors, including improvements in general economic conditions.

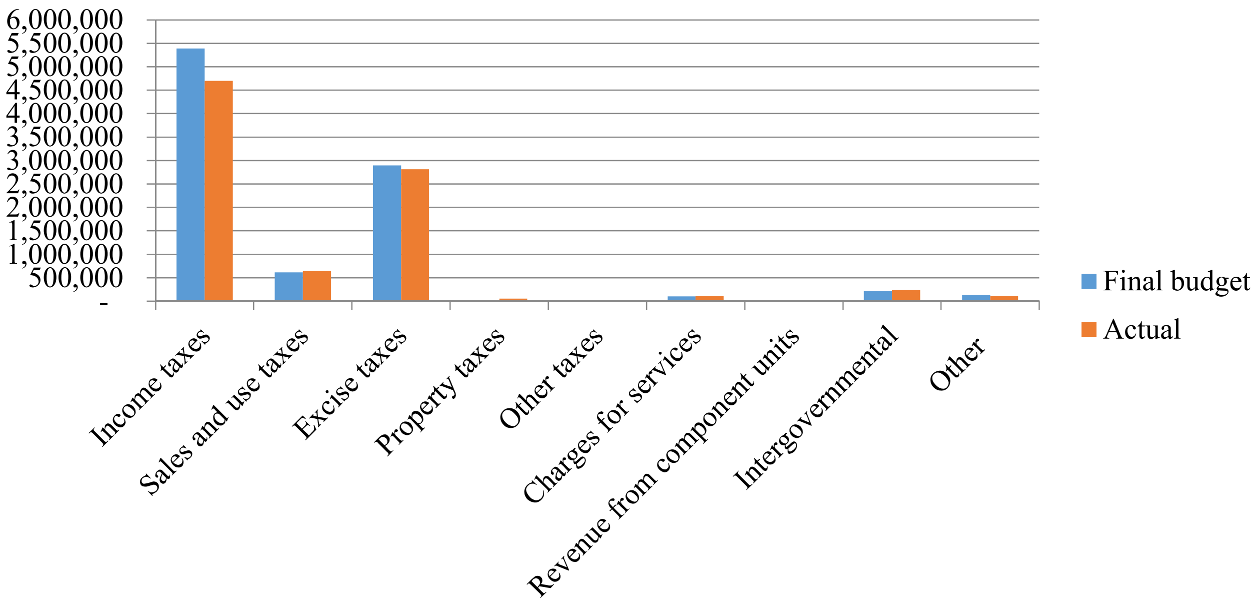
The following information is presented to assist the reader in comparing the final amended budget and the actual results.

COMMONWEALTH OF PUERTO RICO

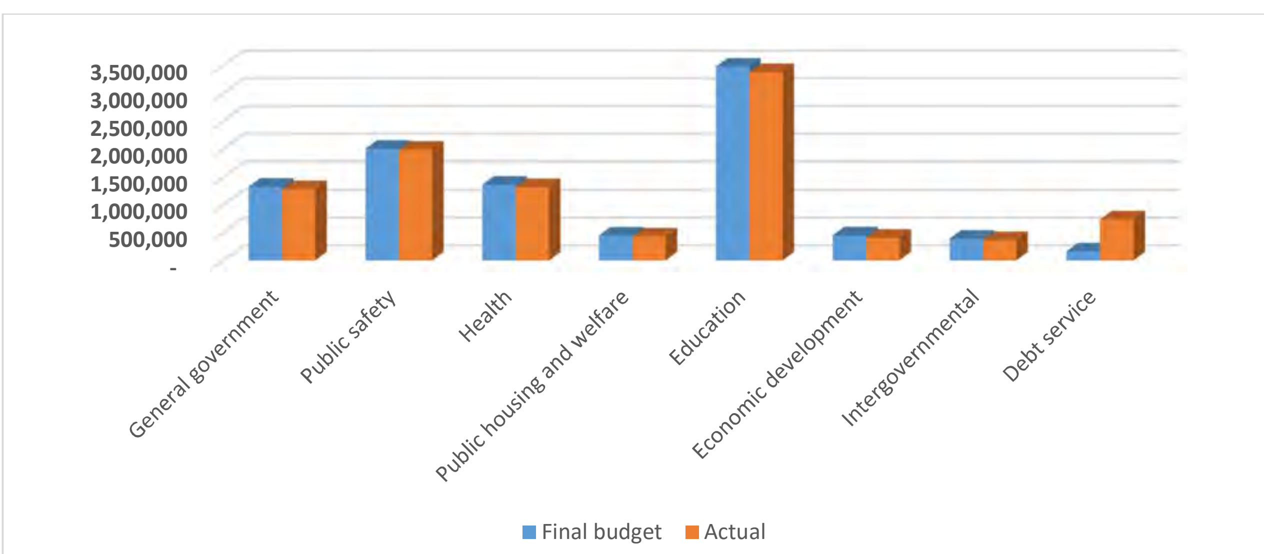
Management's Discussion and Analysis (Unaudited)

June 30, 2014

Actual Revenue – General Fund
Budgetary Basis
Year ended June 30, 2014
(Expressed in thousands)



Actual Expenditures – General Fund
Budgetary Basis
Year ended June 30, 2014
(Expressed in thousands)



(Continued)

For more than a decade, the Commonwealth had significant deficiencies of revenues under expenditures (including debt services) that were mainly funded through issuances of bonds and lines of credits.

Capital Assets and Debt Administration

Capital Assets

The following is a summary schedule of the Primary Government's capital assets (expressed in thousands):

		Governmental Activities		Business-Type Activities		Total Primary Government	
		2014	2013	2014	2013	2014	2013
Land	$	911,298	909,748	6,872	6,872	918,170	916,620
Construction in progress		953,444	1,157,593	—	—	953,444	1,157,593
Buildings and building improvements, net		5,677,076	5,583,417	40,377	34,164	5,717,453	5,617,581
Equipment, furniture, fixtures, vehicles, and software, net		161,257	181,519	18,181	18,169	179,438	199,688
Infrastructure, net		436,887	449,426	—	—	436,887	449,426
Total capital assets	$	**8,139,962**	**8,281,703**	**65,430**	**59,205**	**8,205,392**	**8,340,908**

The Commonwealth's investment in capital assets for its Governmental Activities and Business-Type Activities as of June 30, 2014 amounted to approximately $12.5 billion, less accumulated depreciation and amortization of approximately $4.3 billion, resulting in a book value of approximately $8.2 billion. Capital assets include land, constructions in progress, buildings, building improvements, equipment, and infrastructure. Capital assets included in the Governmental Activities column are principally owned by blended component units (e.g., PBA and PRIFA) and are primarily of value only to the Commonwealth, such as public schools, roads, and buildings used for governmental services. Depreciation and amortization expense for its Governmental Activities and Business-Type Activities amounted to approximately $305 million for the year ended June 30, 2014.

Other infrastructure assets, such as highways, bridges, toll road facilities, water and sewer systems, electricity production, transmission and distribution systems, and similar assets, are owned by discretely presented component units.

Additional information on the Commonwealth's capital assets debt can be found in note 10 to the basic financial statements that accompany this report.

Debt Administration – Primary Government

The Commonwealth has incurred long-term debt financing and other obligations, including lease/purchases and contractual obligations where the Commonwealth's legal obligation to make payments is typically subject to and paid from annual appropriations made by the Legislature of the Commonwealth. For example, the debts reported by most blended component units, by Business-Type Activities and certain discretely presented component units are supported, directly or indirectly, by payments from resources from the Commonwealth's Governmental Activities.